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IDEAS ON LIBERTY

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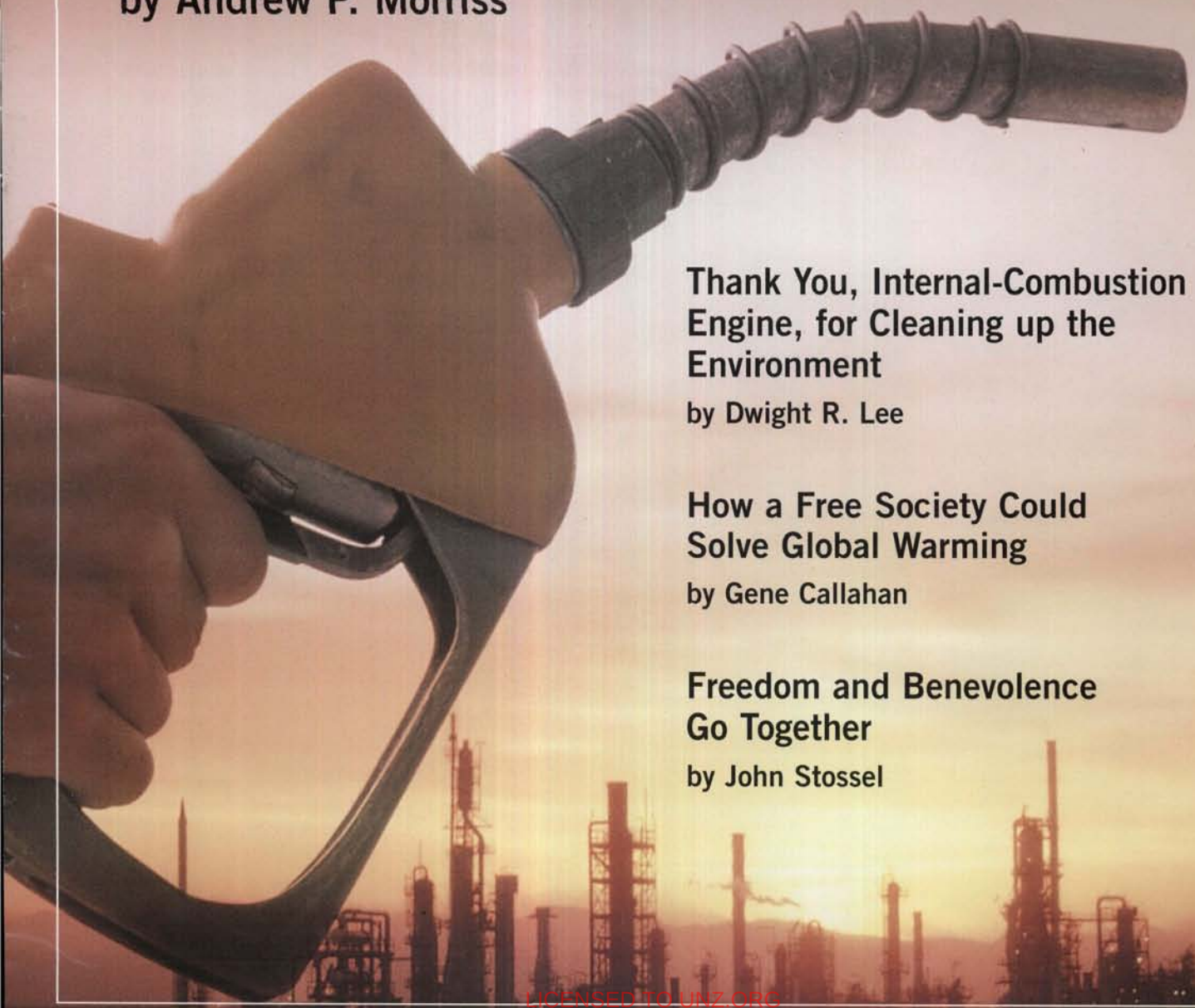
by Andrew P. Morriss



Thank You, Internal-Combustion Engine, for Cleaning up the Environment

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How a Free Society Could Solve Global Warming

by Gene Callahan

Freedom and Benevolence Go Together

by John Stossel

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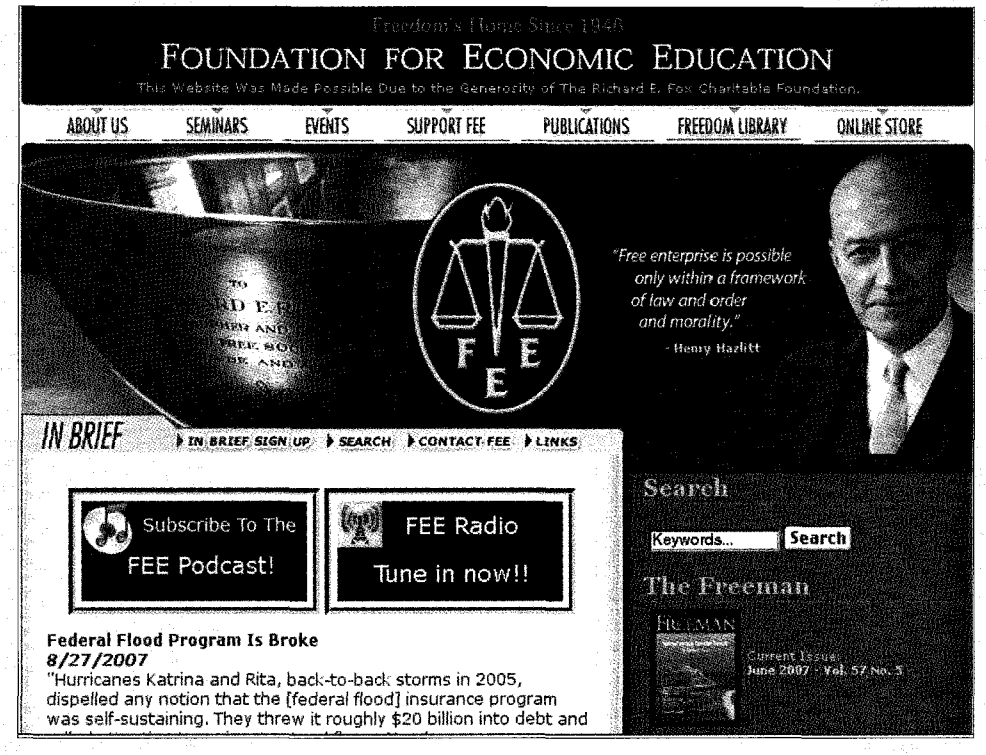
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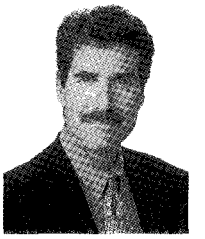

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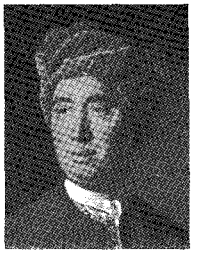

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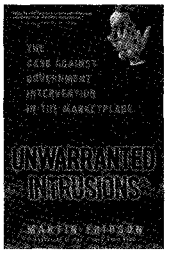

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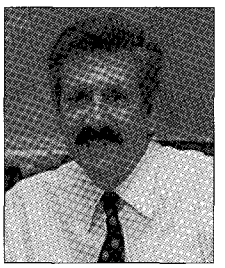
The American Spirit of Enterprise



BY RICHARD M. EBELING

America has been the land of opportunity and free enterprise, an example and a hope for tens of millions of people around the world. In America both the industrious worker and the creative entrepreneur have been hailed as the complementary producers of prosperity and rising standards of living.

Class and caste were meant to play no part in the life of the hardworking individual, with neither political privileges for some nor artificial burdens for others. A Swedish immigrant in the 1880s, for example, could write home that his "cap [is not] worn out from lifting it in the presence of gentlemen. There is no class distinction between high and low, rich or poor, no make-believe, no 'title-sickness' or artificial ceremonies. . . . Everyone lives in peace and prosperity."

And just as the humble hardworking laborer was treated with dignity and respect, so too was the innovative businessman. He was not cast as the social villain or the economic exploiter. In 1886 Walter R. Houghton, professor of political science at Indiana University, published a 620-page book titled *Kings of Fortune, or The Triumphs and Achievements of Noble, Self-Made Men*. Houghton referred to these individuals as men "Whose brilliant careers have honored their calling, blessed humanity, and whose lives furnish instruction for the young, entertainment for the old, and valuable lessons for the aspirants of fortune."

Houghton added, "The chief glory of America is, that it is the country in which genius and industry find their speediest and surest reward. Fame and fortune are here open to all who are willing to work for them. Neither class distinctions nor social prejudices, neither differences of birth, religion, nor ideas, can prevent the man of true merit from winning the just reward of his labors in this favored land. We are emphatically a nation of self-made men, and it is to the labors of this worthy class that our marvelous national prosperity is due."

In his studies of many of the successful businessmen of this time, Houghton went out of his way to emphasize that genius and fame were not defined by him only in monetary terms. He also recounted the stories of men who did not always amass great wealth but who had made lasting contributions to their chosen vocations. However, he clearly did not think these people more noble or worthy of attention merely because they had not accumulated money. In his histories of the lives of "noble, self-made men," wealth was nothing to be ashamed of. Instead, accumulated wealth was the mark of a man who had applied his intellectual abilities, and, through honest, dedicated, and disciplined effort, had made his fortune by revolutionizing the manufacturing or marketing of the goods and services available to masses of the American people in the free market.

The United States was the first country founded on the principles of commerce, trade, and the primacy of peaceful, voluntary exchange. In the 1830s, a French traveler named Michel Chevalier spent two years exploring American life. He returned to France and published a book recounting his journey. (The volume was translated and published in English in 1839 under the title *Society, Manners, and Politics in the United States*.) He explained to his readers:

> The American is a model of industry. . . . Figure to yourself an Irish peasant, who at home could scarcely earn enough to live on potatoes, who would look upon himself as a rich man if he owned an acre of ground, but who, on stepping ashore in New York, finds himself able to earn a dollar a day by the mere strength of his arm. He feeds and lodges himself for two dollars a week, and at the end of a fortnight he

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may have saved enough to buy ten acres of the most fertile land in the world. The distance from New York to the West [Ohio] is great, it is true; but the fare on the great [Erie] canal is trifling, and he can easily pay his way by work of his hands. It is also true, that the poorest Irishman would not think of buying so little as ten acres; the least that one buys in the West is eighty. . . .

Chevalier also described the character and the spirit of these nineteenth-century Americans:

The manners and customs are altogether those of a working, busy society. At the age of fifteen years, a man is engaged in business; at twenty-one he is established, he has his farm, his workshop, his counting-room, or his office, in a word his employment, whatever it may be. He now also takes a wife, and at twenty-two is the father of a family, and consequently has a powerful stimulus to excite him to industry. A man who has no profession, and, which is the same thing, who is not married, enjoys little consideration; he, who is an active and useful member of society, who contributes his share to augment the national wealth and increase the numbers of the population, he only is looked upon with respect and favour. The American is educated with the idea that he will have some particular occupation, that he is to be a farmer, artisan, manufacturer, merchant, speculator, lawyer, physician, or minister, perhaps all in succession, and that, if he is active and intelligent, he will make his fortune. He has no conception of living without a profession, even when his family is rich, for he sees nobody about him not engaged in business. The man of leisure is a variety of the human species, of which the Yankee does not suspect the existence, and he knows that if rich today, his father may be ruined tomorrow. Besides, the father himself is engaged in business, according to custom, and does not think of dispossessing himself of his fortune; if the son wishes to have one at present, let him make it himself!

This is the spirit that made America great. The government at all levels—federal, state, and local—kept almost completely out of the way. Government's primary function was to protect the life, liberty, and property of the individual. Did the government sometimes interfere in the marketplace and busy itself with scandalous wastes of money on public-works projects or subsidies to enterprises run by men close to those who controlled the public purse? Yes, it did. But these were invariably considered evil examples of political corruption and almost always economic disasters. The hallmark of the American system was freedom of enterprise and an open road for the risk-taking speculator and entrepreneur.

Government's Unending Growth

Compared to much of the world, it is certainly true that America still today represents that example of a spirit of enterprise. But the unending growth in the interventionist welfare state during the last 100 years has eaten away at the image of America that so impressed Michel Chevalier in the early nineteenth century and inspired William Houghton in the 1880s to write about the country's "kings of fortune."

In the *World Almanac* of 1868, the entire listing for all the bureaus, agencies, and departments of the federal government fit on one page, and that included all the U.S. ambassadorial postings around the world as well. Today the federal government's departments, agencies, bureaus, and commissions number around 400 and the listing goes on for pages in the 2007 *World Almanac.*

Wherever we turn, the hand of the government regulates, controls, redistributes, prohibits, subsidizes, influences, and manipulates. At the same time too many Americans consider privileges, favors, and handouts from government to be as reasonable and as legitimate as income earned honestly and openly in the marketplace.

Our task, therefore, is to remind our fellow citizens about what made America so inspirational for so many around the globe. We must work to restore the spirit of individualism and self-responsibility that made America unique.

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Perspective

Last Taxpayer Standing

You'd think that if the people are the masters and government is the servant, taxpayers could sue when their money was spent in ways that violate their rights. But that's not how the courts see the matter.

Last summer the U.S. Supreme Court ruled, once again, that mere taxpayer status confers no standing to sue the government when it allegedly spends money unconstitutionally. The decision in *Hein v. Freedom From Religion Foundation* left intact the Bush administration's power to administer its Faith-Based Organization and Communities Initiative. The Freedom From Religion Foundation (FFRF) filed suit after officials of the Bush administration held conferences and gave speeches to encourage the participation of religious groups in the Faith-Based Initiative. The purpose of this program is to permit religious social-service organizations to compete with secular organizations for taxpayer money to carry out various government purposes, such as drug counseling. FFRF argued that using tax money for such a religious purpose violates the First Amendment's Establishment Clause, which states, "Congress shall make no law respecting establishment of religion. . . ."

The Court did *not* say the plaintiff's constitutional argument had no merit. Rather, it said that simply being a taxpayer does not qualify a person to make that argument in court. Why not? Because no mere taxpayer can claim he specifically has been damaged by government spending.

Had FFRF raised any grounds but religion the suit would have been laughed at from the start. But the Supreme Court has allowed one narrow exception to the general prohibition on taxpayer suits for unconstitutional spending. The exception is embodied in the 1968 case known as *Flast v. Cohen*. The *Flast* ruling says a taxpayer does have standing when he alleges that a specific *congressional* appropriation violates the Establishment Clause's restriction on Congress's power to tax and spend.

Despite that ray of hope, FFRF lost in federal district court, but then won on appeal. That set the stage for the Supreme Court reversal. While five of the nine justices ruled against FFRF, the majority had serious differences among themselves and thus did not all sign on to the same opinion. The plurality opinion said *Flast* doesn't

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apply to the FFRF case because the disputed spending was a presidential initiative using general appropriations, not a specific *congressional* appropriation. It's hard to see why that distinction matters.

Why shouldn't taxpayers have standing? As the Supreme Court said in the controlling *Frothingham* case, "[I]nterest in the moneys of the Treasury . . . is shared with millions of others; is comparatively minute and indeterminable; and the effect upon future taxation, of any payment out of the funds, so remote, fluctuating and uncertain, that no basis is afforded for an appeal to the preventive powers of a court of equity." Justice Antonin Scalia has pointed out that "psychic injury" from unconstitutional spending, apart from any "wallet injury," has also sometimes been alleged, but he dismissed it. "Is a taxpayer's purely psychological displeasure that his funds are being spent in an allegedly unlawful manner ever sufficiently concrete and particularized to support . . . standing? The answer is plainly no."

The exception for Establishment Clause grievances was permitted only because the courts thought serious violations of conscience could be involved. But why should religious offense be the only exception? Surely the government is capable of violating freedom of conscience in ways that do not involve the Establishment Clause.

Another rationale for not permitting such suits is that they would prompt a violation of the separation-of-powers doctrine by making the courts the judge of what the executive branch may do and say. As Justice Anthony Kennedy wrote, "Permitting any and all taxpayers to challenge the content of . . . executive operations and dialogues would lead to judicial intervention so far exceeding traditional boundaries on the Judiciary that there would arise a real danger of judicial oversight of executive duties."

Justice Samuel Alito added a similar reason: "[I]f every federal taxpayer could sue to challenge any Government expenditure, the federal courts would cease to function as courts of law and would be cast in the role of general complaint bureaus."

An earlier court said a mere taxpayer suit, if successful, would provide "relief that no more directly and tangibly benefits [the plaintiff] than it does the public at large."

To all of which one may ask, so what? Does the government exist for the convenience of the governed or do the governed exist for the convenience of the government? Barring taxpayers from suing for misuse of their money is far more consistent with a view of the state in which the citizen is the servant.

Taxpayer standing is not some arcane legal issue. It's critical to keeping the government on a short leash.

★ ★ ★

If global warming is manmade and something to be concerned about, must we resign ourselves to government control of our lives? Or would solutions outside the political sphere be possible? Gene Callahan addresses these critical questions.

Nothing is more demonized today than the internal-combustion engine. But as Dwight Lee shows, anyone who values a clean environment should be giving thanks for that engine every day.

Oil is a dominant resource in today's market economy. However, the oil industry is anything but a free-market institution. Andrew Morriss presents a history lesson.

Jeffrey Sachs, economic adviser to governments, has declared F. A. Hayek wrong. The welfare state lives and thrives. Not so fast, says Sudha Shenoy.

David Hume is one of the most influential philosophers of the modern era, and many advocates of individual freedom harbor a fondness for him along with Adam Smith and other representatives of the Scottish Enlightenment. But can Hume's moral skepticism support the case for liberty? Frank van Dun is skeptical about that.

This issue's columnists present viewpoints on an array of topical issues. Richard Ebeling explores the American spirit of enterprise. Lawrence Reed honors the memory of Hans Sennholz. Thomas Szasz warns against the medicalization of everyday life. Burton Folsom ponders how subsidies hurt recipients. John Stossel—a new addition—shows the connection between freedom and benevolence. Walter Williams offers the moral case for freedom. And Arthur Foulkes, reading the claim that Milton Friedman is to blame for contaminated food, responds, "It Just Ain't So!"

Books coming under scrutiny focus on a Siberian gulag, government in the marketplace, Theodore Roosevelt, and philanthropic blunders.

—Sheldon Richman
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Milton Friedman Is to Blame for Unsafe Food? It Just Ain't So!

BY ARTHUR E. FOULKES

There is a "food safety crisis" in America and Milton Friedman is to blame, Princeton University economist Paul Krugman wrote on the *New York Times* op-ed page May 21. Friedman is responsible, Krugman wrote, because he legitimized a "sickening ideology" that rejects "even the most compelling" cases for government regulation of business.

Krugman's "crisis" stems from several recent incidents with tainted food, including *E. coli* in spinach in 2006, which led to three deaths and several illnesses; salmonella in peanut butter; and melamine in pet food. More recently, food imported from China has caused concern.

He believes the government needs to guarantee food safety because market forces alone cannot. His case, however, both understates the ability of the market to provide food-quality assurance and disregards or ignores important arguments against relying on the government for this purpose.

Krugman writes that "the economic case" for government food-safety regulation is "overwhelming" because people buying food know much less about its quality than sellers do. This is the "asymmetric information" argument common in market-failure literature.

Yet asymmetric information problems are not unusual. For example, when I am hired, I know more about my work habits than the person doing the hiring. When I purchase auto insurance, I know more about my driving skills than the insurer. When I buy a lamp, I know far less about its quality than the manufacturer. Yet despite all this, somehow we engage in mutually beneficial exchanges every day.

Indeed, the existence of asymmetric information creates a market for assurance services that entrepreneurs quickly fill. Examples of private means of assurance range from neighborhood gossip to trusted brand names to Underwriters Laboratories to *Consumer Reports.* Brand names provide an informal means of quality assurance that companies and consumers are willing to pay for. Likewise, middlemen, such as department or grocery stores, also provide a reputation-conscious source of quality assurance that both consumers and producers are willing to pay for.

Food may be potentially more dangerous than many other goods, but this fact only adds to the incentives for private assurance. Indeed, a downside to using the government for food-quality assurance, such as the Food and Drug Administration (FDA), is that it makes consumers less conscious of food safety in general. Furthermore, the existence of the FDA "crowds out" private (and more creative) assurance providers that would certainly emerge in its absence.

Krugman worries about Americans buying so much food from abroad, pointing out darkly that FDA inspectors check only a tiny percentage of the imports. This leaves the American consumer "dependent on the quality of foreign food-safety enforcement," he writes.

Yet government food inspectors are not really the only source of quality assurance for imported food. Even though Krugman dismisses this point in his piece, sellers of imported food really do have an important incentive to avoid making their customers sick.

"The food industry bristles at the notion that a greater diversity of foreign ingredient suppliers could

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increase risks for consumers," the *New York Times* reported on June 16. "Executives at food companies say that they willingly bear the burden of ensuring the safety of their suppliers' plants and products." The same article quotes an executive at Sara Lee saying, "[Food safety is] on us. We can't sit around and wait for government to iron these things out."

Of course, it is always possible for bad food to reach consumers. There will always be accidents and negligence in any human endeavor. Nevertheless, to dismiss the fact that companies have an incentive not to harm their consumers and imply that only government officials can do this, as Krugman does, is to leave out an important part of the food-safety picture.

Krugman also writes that corporations are at fault in the food crisis, citing salmonella contamination in ConAgra peanut butter that came to light in 2005. Krugman also notes that ConAgra officials, during a surprise two-day FDA inspection prompted by an anonymous tip about the contamination, refused to hand over company documents without a written request from the FDA.

While this certainly shows corporations can have food-safety problems, it may not be a persuasive case of corporate irresponsibility. ConAgra detected the salmonella during its own routine inspections and, a spokeswoman told me, none of the contaminated peanut butter ever left the company's control or reached consumers.

As for why ConAgra refused to hand over documents without a written request, the spokeswoman said it wanted to be sure it handed over all the requested information and to keep any of its "proprietary information" from becoming part of the public record.

Some people will see something sinister in anything a corporation does, but in this case at least, the company seems to have responded effectively to the problem and acted reasonably when dealing with a surprise government inspection.

Industry Wants Regulation

Krugman also blames the Bush administration for the food crisis because it refuses to regulate private industries even when they ask for it. He quotes the president of a food-industry group calling for stronger government regulations.

Yet it is not unusual for business people to seek government regulations, nor does this demonstrate that the sought regulations are in the public's interest. Often business people want regulations to cripple competitors or restore public confidence at taxpayer expense. The Meat Inspection Acts of 1891 and 1906 provide good examples.

It is not unusual for business people to seek government regulations, nor does this demonstrate that the sought regulations are in the public's interest.

Refrigeration changed the meatpacking industry dramatically in the late 1800s, allowing large centralized packers in Chicago to offer meat in greater quantities and at lower costs than before. Threatened by the new competition, smaller local slaughterhouses began to claim the Chicago packers were unsanitary. Demand for meat fell (along with prices)—leading the industry to ask for federal regulations to restore public confidence. (See E.C. Pasour, Jr., "We Can Do Better than Government Inspection of Meat," *The Freeman*, May 1998.) The result was the Meat Inspection Act of 1891.

A similar situation led to passage of the Meat Inspection Act of 1906 as well. As Lawrence Reed has written, big meatpackers "got the taxpayers to pick up the entire $3 million price tag for [the Meat Inspection Act's] implementation." They also got new regulations placed on their smaller competitors. ("Of Meat and Myth," *The Freeman*, November 1994.)

Finally, Krugman's essay overlooks an important economic argument against the FDA itself. Economists have long understood that because of the perverse incentives its employees face, the agency weighs decisions heavily on the side of caution. As a result, it has often kept lifesaving drugs and products off the market at the cost of many thousands of lives.

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How a Free Society Could Solve Global Warming

BY GENE CALLAHAN

The phrase "global warming" has been around for quite some time, but in the past year it has captured the spotlight as never before. One can't turn on the radio or open a newspaper without facing ads from "green" corporations, or hearing the latest way to reduce one's "carbon footprint." With even prominent Republicans (such as Arnold Schwarzenegger and George W. Bush) on board, it seems all but inevitable that major governments around the world will enact new policies to combat this ostensible threat—and to cripple economic growth in the process.

Thus far the typical libertarian response to the growing clamor has been to challenge the science behind it. Now it really is the scientific consensus that global warming occurred during the twentieth century. What is *not* so obvious is that (1) humans caused this warming and (2) this warming is necessarily bad.

Although it is interesting to explore the question of whether science has been perverted in the cause of environmentalism, there is a danger for libertarians in pinning their entire case on this strategy. After all, every serious student of science knows that when it comes to empirical claims, we never achieve certainty. For example, even if today one thinks that there are insurmountable problems facing the theory of manmade global warming, one still must accept the possibility that new evidence or theoretical advances could indicate that the environmentalists are perfectly right. Another possibility is that there is some *other*, similar disaster lurking unsuspected.

For these reasons, I believe it is crucial to accept provisionally, for the sake of argument, the scientific claims behind the case for manmade global warming. In the present article I will demonstrate that it *still* would not follow that the taxes and other regulations typically proposed by greens are the best way to address the problem. Just as the free market is still the optimal economic arrangement, regardless of how many citizens are angels or devils, so too does the free market outperform government intervention, regardless of the fragility of Earth's ecosystems.

When trying to determine if the free market is to blame for possibly dangerous carbon emissions, a logical starting point is to list the numerous ways that government policies *encourage* the very activities that Al Gore and his friends want us to curtail.

The U.S. government has subsidized many activities that burn carbon: it has seized land through eminent domain to build highways, funded rural electrification projects, and fought wars to ensure Americans' access to oil. After World War II it played a key role in the mass exodus of the middle class from urban centers to the suburbs, chiefly through encouraging mortgage lending.

Every American schoolchild has heard of the bold transcontinental railroad (finished with great ceremony at Promontory Summit, Utah) promoted by the federal government. Historian Burt Folsom explains that due to the construction contracts, the incentive was to lay as much track as possible between points A and B—hardly an approach to economize on carbon emissions from the wood- and coal-burning locomotives. For a more recent example, consider John F. Kennedy's visionary moon shot. I'm no engineer, but I've seen the takeoffs of the Apollo spacecraft and think it's quite likely that

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the free market's use of those resources would have involved far lower CO_2 emissions.

While myriad government policies have thus encouraged carbon emissions, at the same time the government has *restricted* activities that would have reduced them. For example, there would probably be far more reliance on nuclear power were it not for the overblown regulations of this energy source. For a different example, imagine the reduction in emissions if the government would merely allow market-clearing pricing for the nation's major roads, thereby eliminating traffic jams! The pollution from vehicles in major urban areas could be drastically cut *overnight* if the government set tolls to whatever the market could bear—or better yet, sold bridges and highways to private owners.

Of course, there is no way to determine just what the energy landscape in America would look like if these interventions had not occurred. Yet it is entirely possible that on net, with a freer market economy, in the past we would have burned less fossil fuel and today we would be more energy efficient.

Even if it were true that reliance on the free-enterprise system makes it difficult to curtail activities that contribute to global warming, still the undeniable *advantages* of unfettered markets would allow humans to deal with climate change more easily. For example, the financial industry, by creating new securities and derivative markets, could crystallize the "dispersed knowledge" that many different experts held in order to coordinate and mobilize mankind's total response to global warming. For instance, weather futures can serve to spread the risk of bad weather beyond the local area affected. Perhaps there could arise a market betting on the areas most likely to be permanently flooded. That may seem ghoulish, but by betting on their own area, inhabitants could offset the cost of relocating should the flooding occur. Creative entrepreneurs, left free to innovate, will generate a wealth of alternative energy sources. (State intervention, of course, tends to stifle innovations that threaten the continued dominance of currently powerful special interests, such as oil companies—for example, the state of North Carolina recently fined Bob Teixeira for running his car on soybean oil.)

Private insurers have a strong incentive to assess the potential effects of global warming without bias in order to price their policies optimally—if they overestimate the risk, they will lose business to lower-priced rivals; if they are too sanguine about the dangers, they will lose money once the claims start rolling in. Individuals finding their homes or businesses threatened by rising sea levels will find it easier to relocate to the extent that unfettered markets have made them wealthier. Industrial manufacturers, as long as they are held liable for the negative environmental effects of their production processes—a traditional common-law liability from which state policies intended to "promote industry" have often sought to shield manufacturers—will strive to develop technologies that minimize the environmental impact of their activities without sacrificing efficiency. Government interventions and "five-year plans," even when they are sincere attempts to protect the environment rather than disguised schemes to benefit some powerful lobby, lack the profit incentive and are protected from the competitive pressures that drive private actors to seek an optimal cost-benefit tradeoff.

If the situation truly becomes dire, it will be free-market capitalism that allows humans to develop techniques for sucking massive amounts of carbon out of the atmosphere, and to colonize the oceans and outer space. Beyond these futuristic possibilities, the obvious responses to global warming—such as more houses with AC, sturdier sea walls, and better equipment to evacuate flooded regions—are again only feasible when the free market is unleashed.

It is the poorest people and nations that stand to suffer the most if the worst-case scenario for global warming is realized, and the only reliable way to alleviate their poverty, and thus help protect them from those effects, is the free market.

Can the Market Meet the Threat Head-On?

In the first section I summarized some of the ways governments inadvertently contribute to the very activities that allegedly cause dangerous global warming; in the second I sketched some of the ways that free markets allow humans to better adapt to climate change. However, I haven't really tackled the problem directly. Am I conceding that with a worldwide problem the market—which is just dandy for one-on-one interactions—can't match the concerted "will of the people"

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working through their elected representatives for a common solution?

Of course not. Even when economic transactions generate so-called negative externalities (activities that shower harms on third parties), I still contend that the free market is the best institution for identifying and reducing the problems.

One way negative externalities can be addressed without turning to state coercion is public censure of individuals or groups widely perceived to be flouting core moral principles or trampling the common good, even if their actions are not technically illegal. Large, private companies and prominent, wealthy individuals are generally quite sensitive to public pressure campaigns.

To cite just one recent, significant example, Temple Grandin, a notable advocate for the humane treatment of livestock, asserts that McDonald's is the world leader in improving slaughterhouse conditions. While many executives at the fast-food giant genuinely may be concerned with the welfare of cattle, pigs, and chickens, undoubtedly a strong element of self-interest is also at work here, as the company realizes that corporate image affects consumers' buying decisions.

But that self-interest does not negate the laudable outcome of the pressure McDonald's has applied to its suppliers to meet the stringent standards it has set for animal-handling facilities. Similarly, to the degree that the broad public regards manmade global warming as a serious problem, companies will strive to be seen as "good corporate citizens" that are addressing the matter. And this isn't ivory-tower speculation on my part—I can see the "green friendly" ads already.

Critics of libertarianism sometimes denigrate it as a political program of "market fundamentalism" that, if put into practice, would reduce all human values to the price they can fetch as mere commodities. But that is a caricature of the social arrangements advocated by any sensible libertarian. The great figures of classical-liberal and libertarian thought have always recognized the vital contributions that nonmarket institutions, such as churches, families, charities, social clubs, communities of scholars and their students, art foundations, conservation groups, neighborhood associations, and youth athletic leagues, make to the healthy functioning of a free society. What libertarians offer as an alternative to statism is not a social order that judges every human interaction solely on a miserly calculation of profit or loss, but a society in which every desirable form of voluntary association is allowed to flourish, free from coercive interference by the state.

The great figures of classical-liberal and libertarian thought have always recognized the vital contributions of nonmarket institutions.

Customary Law

Besides the samples listed above, most libertarians recognize private or customary law as another important, nonmarket source of social order. A historical case in point is the Anglo-American common-law tradition in which legal norms evolved spontaneously from the customs of the people to whom it applied, rather than through legislation and state planning deliberately aimed at achieving some "public good." The many centuries during which the common law sustained civic order in the face of inevitable divergences between individual citizens' own interests demonstrate that a successful legal order does not inevitably require state sponsorship. The common law has shown itself to be fully capable of dealing with a number of issues that, while not exhibiting the worldwide scope of global warming, are still similar to our present concern in arising from the cumulative effects of many individual actions, each of which, regarded in isolation, appears to be unproblematic and not subject to legal sanction. For instance, the salmon-fishing streams of Scotland are a valuable natural resource, and the communities along them have developed quite successful institutions for ensuring the value of the streams is maintained, including private policing and legal penalties for overfishing and for polluting the water.

The many cases in which voluntary solutions to problems of collective choice have worked pose an

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empirical embarrassment for those who argue that "public goods" must be provided by the government. Most advocates of compulsory solutions to pollution abatement, for example, would assert that voluntary efforts will be vitiated by "free riding." If individuals are not forced to contribute their fair share toward addressing these problems, this argument runs, each person rationally will hold back and hope others will pay for the proposed solution, since any free riders would gain the benefits (such as clean air) anyway. Since almost no one likes to be "the sucker," it follows that the amount of resources devoted to the provision of the public good will fall woefully shy of the total that would be available if each person gave the amount he'd be willing to give if only he could count on everyone else pitching in equally. The sole solution that can be imagined is for the members of a society to create a "social contract" by which they are forced to pay for pollution abatement.

However, Anthony de Jasay notes in his book *The State* that this argument is severely flawed. If people cannot solve public-goods problems through voluntary cooperation, how can they rely on politicians' promises to do so? There is no external authority to enforce those promises. There is only public opinion, the same thing that would enforce voluntary solutions. Moreover, government is itself a "public good" in the sense that free riders benefit from the efforts of those who try to get the government to produce public goods such as clean air.

Is Temperature a Public Good?

Another consideration is that the earth's temperature isn't such a public good after all. That is, certain people really do have more at stake, particularly if the warming is moderate. For example, if Manhattan became submerged because of rising sea levels, that calamity would not affect every human being equally. The residents of Manhattan and the owners of its skyscrapers would be hurt far more than people living in inland China. Because all the various potential dangers of global warming affect particular people more intensively than others, it is these groups that (in a free market) would have the incentive to reduce CO_2 concentrations. For example, if rising sea levels would cause $10 trillion in damage to a comparatively small group of wealthy individuals, that's a huge "pie" that the wealthy can offer others to motivate them to reduce emissions.

Despite my optimism about the potential to deal with environmental problems through voluntary means, I don't wish to be misunderstood: If the official global-warming story is true, it presents a serious problem that humanity will find difficult to solve through voluntary means. But this isn't a strike against voluntarism—of *course* a difficult problem will be difficult to solve! By the very same token, the government doesn't do a terrible job at collecting stray dogs, because that's a very simple task. When it comes to harder assignments, such as stopping terrorism or reducing teen pregnancy, the government's record is quite a bit worse.

The very features of the official global-warming scenario that hamper purely private solutions would apply equally to government efforts. For example, even if the U.S. government passed draconian measures at home, that alone wouldn't be enough if China and India don't follow suit. And just as private companies in a free market may have an incentive to pollute if they can get away with it, so the state, under the influence of special-interest groups and run by leaders always tempted to ignore the public good in favor of increasing their own power and wealth, can have incentives to allow more pollution than is optimal. (It should be clear the "best" amount of pollution is not zero, because even using fire to cook generates some pollutants, and I doubt that anyone but the most misanthropic, fanatical nature worshippers want to reverse all of the last 40,000 years of human progress.)

As in all debates over public versus private choice, it's inappropriate to measure a realistic free-market response to global warming against an idealized government program. We must try to envision what real people would do if their property rights were respected and compare that scenario with the probable outcome of actual politicians in today's world being given a blank check in the name of saving the earth.

Government programs don't ameliorate world poverty or sickness, and no libertarian would deny that these are serious problems. So even if manmade global warming is a real threat, why should we expect governments to get it right on *this* issue?

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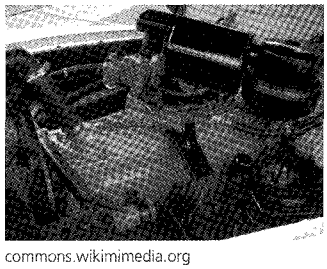
Thank You, Internal-Combustion Engine, for Cleaning up the Environment

BY DWIGHT R. LEE

The internal-combustion engine is widely believed to have been an environmental disaster. It has been accused of harming our health by reducing air quality and contributing to what is currently claimed to be the most threatening of all environmental problems, global warming. But long before carbon dioxide was declared a major pollutant, a car was smashed with sledgehammers by students in Seattle during the first Earth Day on April 22, 1970. Al Gore called for eliminating the internal-combustion engine within 25 years in his 1992 book *Earth in the Balance* (only ten years left). Others, not worried about offending voters in Detroit, are less restrained in the criticism. Someone named Royce Carlson states in an Internet posting that because of "one hundred years of gasoline and diesel internal combustion engines . . . our air is polluted, . . . and we are destroying the environment." A 2006 article in the *Vancouver Sun* reported that "more than half of British Columbia drivers believe that cars are destroying the environment."



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In fact, everyone concerned with a clean and healthy environment—and that includes far more people than those vocally claiming to be environmentalists—should be enthusiastic fans of the internal-combustion engine because of the important contributions it has made to environmental quality. The environmental benefits we realize from the engine have long been clear to anyone who bothered to notice. And these benefits have become more obvious because of an article in *The Independent*, a respected British newspaper (http://tinyurl.com/ys5srd). The article was based on a study by the United Nations Food and Agriculture Organization ("Livestock's Long Shadow—Environmental Issues and Options"), which found, quoting the newspaper, that "livestock are responsible for 18 percent of the greenhouse gases that cause global warming, more than cars, planes and all other forms of transport put together." The problem begins in the digestive systems of livestock and ends up as flatulence.

The internal-combustion engine began improving the environment, however, long before global warming became a concern. Consider the fact that in 1900 a large percentage of the available horsepower really was horse power, or mule power, or ox power. As the power of the internal-combustion engine began to be substituted for animal power in the early 1900s, we began to substitute the emissions coming out of the tailpipes of cars and trucks for those coming out of the tailpipes of animals. The result was that the environment started becoming far cleaner and healthier.

Consider horse manure's effect on the environment and health of New Yorkers in 1900. Robert Fogel, a Nobel Prize-winning economic historian, writes:

> We complain a lot about air pollution today, but there were 200,000 horses in New York City, at the beginning of the 20th century defecating everywhere. And when you walked around in New York City, you were breathing pulverized horse manure—a much worse pollutant, than the exhausts of automobiles. Indeed in the United States, the automobile

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was considered the solution to the horse problem because pulverized horse manure carried a lot of deadly pathogens.

No serious person denies that photochemical smog from gas-powered vehicles is a health risk. It would be silly to do so. It would be even sillier, however, to deny Fogel's observation that the air and water pollution from horse manure was a far greater health risk than the pollution from cars and trucks. Diseases such as cholera, typhoid, typhus, yellow fever, and diphtheria were responsible for the deaths of tens of thousands of Americans in the early twentieth century. As cars and trucks began replacing horses and other beasts of burden, these deaths began to decline dramatically. Medical improvements get some of the credit, but most of the credit during the early decades of the twentieth century goes to the reduced filth in the environment from animal waste.

The environmental benefits from the internal-combustion engine have not been confined to towns and cities. Before the power of internal combustion was harnessed, beasts of burden were adding greatly to the pollution generated by meat-producing animals, such as cows, pigs, and chickens in agricultural communities. By eliminating the need for horses, mules, and oxen on farms, tractors, trucks and other types of gas-powered farm machinery limited the problem of animal waste from agriculture almost entirely to feed lots that environmentalists, with justification, still complain about. It would be nice to hear them acknowledge that they would have even more to complain about without the internal-combustion engine.

Another environmental benefit that internal combustion seldom receives credit for is that it eliminated the need to grow food for millions of farm animals. It has been estimated that in 1910 about 25 percent of U.S. acreage devoted to growing crops was being used to grow food for the farm animals that were soon replaced by motorized farm equipment. Much of that land is now forestland, with the number of trees absorbing the greenhouse gas carbon dioxide much greater than it would have been without the internal combustion engine.

Based on the animal waste and the diseases that have been eliminated by the internal-combustion engine, plus the additional forestland it has made possible, environmentalists should be celebrating motorized vehicles on Earth Day instead of destroying them with sledgehammers. And the reason for celebrating internal combustion is even stronger now that we have evidence that by eliminating all those barnyard animals, the engine has also eliminated vast amounts of methane from animal flatulence—a gas with far more greenhouse potency than the carbon dioxide produced by gasoline engines.

No Credit Given

Yet with respect to the UN report, the mainline environmentalists are not giving the internal-combustion engine any credit for reducing greenhouse gases. Instead, they are pointing their fingers at meat eaters, with some recommending vegetarianism as the best way to combat global warming. From a report written for EarthSave International, we read, "Arguably the best way to reduce global warming in our lifetimes is to reduce or eliminate our consumption of animal products" (quoted in the February 20, 2007, *Christian Science Monitor*, http://tinyurl.com/3997wc). What is not mentioned is that if the vegetarian solution were taken seriously, it would increase the environmental benefits provided by the internal-combustion engine. Imagine the extra animal manure and methane that would be discharged if we had to grow all those additional vegetables without motorized farm equipment.

The internal-combustion engine is certainly not pollution free—as is always the case, there is no such thing as a free lunch. Before criticizing anything for being costly, however, one should always ask the question—compared to what? When this question is taken seriously, the environmental record of the internal-combustion engine is impressive by virtue of its being far less polluting than the animals it replaced. Furthermore, gasoline-powered engines are less polluting today than they were a few years ago, and they will be less polluting in a few years than they are today. And the less intrusive government is with yet more commands and controls in response to every problem, real or imagined, the sooner an even-less-polluting power technology will replace internal combustion. Until then, let's give the internal-combustion engine the respect it deserves for its contribution to a cleaner and healthier environment.

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Hans F. Sennholz, 1922–2007

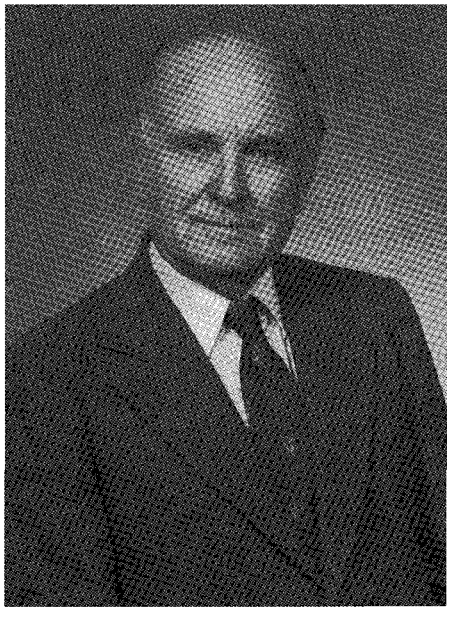
BY LAWRENCE W. REED

After a long and productive life, a man of great faith passes on and is welcomed into Heaven. He is greeted with an invitation. "What would you most like to do?" he is asked.

"I always enjoyed giving speeches about what it was like to live through the Johnstown Flood," he responds. "I'd love to tell everyone up here all about it."

"That's fine," the man is advised. "But remember that Noah will be in the audience."

With that story, Rev. James Seeley of Holy Trinity Lutheran Church in Grove City, Pennsylvania, began his remarks at services on June 26 for one of the most colorful and revered economists in the free-market firmament, Hans F. Sennholz. Well-known to readers of this magazine as one of its more prolific authors and a former president of FEE, Dr. Sennholz had departed this world three days before.



Hans F. Sennholz

Dr. Sennholz, Rev. Seeley explained, was one of the first of his new congregation he came to know when he began pastoring at Holy Trinity nearly two decades before. During one of his early sermons the young minister dared venture into economic matters, though for only a few moments. Afterwards, a distinguished-looking gentleman with a thick German accent admonished him: "Young man, the next time you talk about economics, I hope you will know what you're talking about!" Thus began the economics education of Rev. Seeley, who remembers fondly the many times in later months and years that his new mentor showered him with books and articles and listened intently every Sunday from the pews.

Any one of the tens of thousands who studied under Sennholz would immediately recognize this story as vintage Hans. He never missed an opportunity to prick a conscience or deflate the self-assured when a good pricking or deflating was called for. The moral and economic case for a free society was just too important for him ever to keep silent. After all, he not only knew what freedom was, he knew firsthand what it meant to be denied it.

Born in 1922 in the Rhineland, Sennholz witnessed the rise of Adolf Hitler. As a teenager he was drafted into the Nazi air force, then later shot down over North Africa and transported to a prisoner-of-war camp in Texas. After the war he returned to Germany and earned an economics degree in 1948 from the University of Marburg, followed by a doctorate in political science from the University of Cologne in 1949. It was in Marburg where fate changed his life forever. He encountered the works of the Austrian economist Ludwig von Mises and was transfixed by their illuminating logic. He became a passionate scholar and teacher of the moral and economic principles of the free society for the next half-century. In 1955, he earned a Ph.D. in economics from New York University, where he studied under Mises himself.

At Grove City College, where he taught from 1956 until his retirement in 1992, Sennholz was a memorable classroom lecturer with a distinct theatrical delivery that prompted both admiration and imitation. He knew how to mesmerize an audience, and no matter how large or

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challenging it was, he did more than just rise to the occasion. He transcended it with his oratorical skills. Those of us who heard him speak in many venues over the years felt he was almost always at his best, but he liked to say the size of the crowd made a difference: "If there are 10, I give a talk. If there are 25, I give a lecture. Over 100, I give a speech. To 200 or more, I give an oration."

Once, he held forth for 45 minutes with a ringing defense of free labor markets and a brilliant assault on compulsory unionism. With five minutes left in the class, a student raised his hand to ask a question. "Dr. Sennholz, what you say sounds appealing but the fact is, not many people think that way. So there's got to be something wrong with what you're saying."

Silence. Then the response—gentle but firm, and forever quotable. "Truth," he said, "is *not* a numbers game. You can be alone and you can be right." Then a pause and the grand finale, "I may be alone, *but I am right*."

Perhaps the greatest tribute to a teacher is what his students later do because of what he taught them.

And of course he was. And he was also right about a lot of other things that at the time weren't widely accepted as true. He was right about the big picture, the paramount question of our age: *Should economies be led by central planners or by the sovereign choices and decisions of free individuals?* There was never a shred of doubt where Hans stood on that, and one of his greatest contributions was to instill in his audiences a similar certitude on that question.

Perhaps the greatest tribute to a teacher is what his students later do because of what he taught them. In this regard, Dr. Sennholz leaves a vast and enduring legacy. In all walks of life, thousands of Sennholz students are spreading the good word about liberty and free markets. Many are doing it from prominent platforms as economists, educators, philanthropists, pastors, and political leaders, and all of us have endless and wonderful memories of how inspired we were by the golden tongue of our illustrious mentor.

George Pearson says taking Dr. Sennholz's economics principles course in the early 1960s "was a defining moment in my life." Pearson has spent much of the past 40 years in various capacities encouraging young scholars in free-market thought and is now a trustee of the Flint Hills Center for Public Policy in Kansas.

Economist and popular professor Peter J. Boettke of George Mason University notes that Sennholz's lectures "changed my life and fuel my approach to economic education" a quarter century later. "Sennholz," says Boettke, "was a man of deep moral conviction and never shied away from defending the moral and philosophic principles of the private property order."

Scott Bullock, senior attorney at the prestigious Institute for Justice, counts himself among the many Sennholz students "who carry with them deep wisdom gained from a teacher who could explain complex economic subjects in common-sense and powerful ways."

Sennholz's fame spread far and wide, and students came from many countries to study at his feet. Alejandro (Alex) Chafuen came from Argentina. "Economics explains many things," says Chafuen, the long-time president of the influential Atlas Economic Research Foundation, "but it can't explain why people will devote their life to produce fruits that they will not see. If freedom has a chance, it is not only because it works, but because educators such as Dr. Sennholz chose to sacrifice many things to follow a principled path."

John A. Sparks had the good fortune to be both a student and later a faculty colleague of Sennholz. He describes his teacher this way: "He spoke with the incisive reason of a first-rate economist, the long-term perspective of an historian, and the moral fervor and conviction of an Old Testament prophet, and all this with clarity of syntax punctuated with that distinctive German accent."

Hans Sennholz's impact on my own life is beyond my capacity to measure. It is arguably greater than anyone outside of my own parents. He set me on course to advance liberty as a teacher and writer more than 35 years ago. Someday, if I make it to Heaven, I think I'd like to give the folks there the same lectures on economics and liberty that I was inspired by my teacher to give so many times down here.

But of course, Hans Sennholz will be in the audience, which means I'd best get it right.

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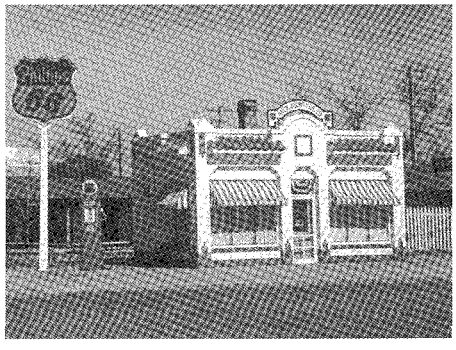
Putting a Bureaucrat in Your Tank: Gasoline Markets and Regulation

BY ANDREW P. MORRISS

If you run a barrel of crude oil through a still, the technique used by the earliest refineries and still a stage in modern refining, it separates into various fractions, including kerosene, gasoline, diesel, fuel oils, waxes, and asphalt. Without further processing, about 10 percent will be "straight run" gasoline. In the 1870s this 10 percent was a waste product from kerosene refineries, frequently dumped in streams because the explosive liquid had no known uses. John D. Rockefeller's Standard Oil Co. unsuccessfully experimented with gasoline stoves, trying to create a market for gasoline. By 1910, however, the nation faced a gasoline shortage as demand from the growing number of automobiles outstripped refinery production. Market forces transformed gasoline from a useless byproduct into a valued commodity.



Gasoline has been the subject of multiple regulatory efforts since the early twentieth century.

Responding to the increased demand, private entrepreneurs funded the development of cracking technology. This method of transforming one set of hydrocarbons into another increased the proportion of the most-valuable products. On average 100 barrels of crude yielded 75.2 barrels of kerosene and 10.3 barrels of gasoline in 1880. By 1940 those same 100 barrels of crude produced an average of 5.5 barrels of kerosene and more than 40 barrels of gasoline. An equally dramatic example of technological progress occurred in the early 1930s and 1940s. The development of higher-performance engines prompted growing demand for higher octane gasoline, kicking off what came to be known as the "octane race" among refiners in the 1930s. Then World War II created demands for large quantities of high-performance 100-octane aviation fuel. Millions of gallons a year of this fuel, which had only been produced in tiny quantities as a reference chemical at a cost of $25 per gallon in the 1930s, became available at a cost of just over 25 cents per gallon in the early 1940s.

As a result, gasoline has been the subject of multiple regulatory efforts since the early twentieth century. (What? You thought they might produce public acclaim for an industry that had turned a waste stream into a valuable commodity and then upgraded the quality and reduced the price of its products to fuel the war effort?) These regulations have severely distorted the market for gasoline, increasing costs for consumers and diverting investment into political maneuvering. The government meddling produced a transportation-fuel network that is dangerously fragmented and at risk from natural disasters, accidents, terrorist attacks, and just plain old stupidity. Even worse, each time the fragile nature of the gasoline market is exposed, the reaction in Washington and state capitals is to layer on yet more bureaucracy and regulations, worsening the problem.

Aside from comparatively lightly regulated periods in the 1920s, 1950s, and 1980s, American governments

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have rarely left the oil business alone. Politicians use four different, and often mutually contradictory, rationales for their interventions.

- *Antitrust.* Since the Standard Oil litigation in the early twentieth century, politicians regularly invoke antitrust issues in support of claims that oil companies are conspiring against the public. When prices go up, you can be sure that politicians will call for antitrust investigations, windfall-profits taxes, and other measures to keep "greedy oil companies" from profiting "too much."
- *Destructive competition.* When prices go down, however, domestic oil producers suffer reduced revenue, and less-efficient refiners and retailers lose market share. This spurs calls for investigations into measures to stop "destructive competition." The governors of Texas and Oklahoma declared martial law in the oil fields during the Great Depression as part of their efforts to stop unregulated "excessive" pumping. Creating an oil "industry code" to reduce competition was a key element in the New Deal. Later regulatory programs have been filled with exemptions and special treatment for "small" players in the energy business in an attempt to protect inefficient firms from the ravages of competition.
- *National security.* From the time oil proved its worth as a naval fuel in World War I, the military has worried about adequate oil supplies. Domestically, national security concerns led to the creation of petroleum reserves after World War I (which later played a role in the Teapot Dome scandal) and these reserves have served as a fig leaf for import quotas and other restrictions on several occasions. You can count on the federal government to trot out national security as a justification almost every time it unveils a new subsidy or some other barrier to trade.
- *Environmental protection.* Governments at all levels take a keen interest in fuel formulation, inclusion of renewable fuels, and the location and operation of refineries, terminals, and filling stations. Since the appearance of the modern environmental statutes in the early 1970s, federal, state, and local governments have increasingly involved themselves in gasoline markets on environmental grounds.

The actual regulations and laws enacted in pursuit of these goals often do not advance the stated purpose, which frequently serves as convenient window-dressing for interest groups looking for favors. (The definitive source on energy markets through the 1980s remains Robert Bradley's monumental 1996 study, *Oil, Gas, and Government.*) To see how these interventions have disrupted gasoline markets, let us consider three of the largest regulatory programs: the Mandatory Oil Import Program (MOIP), the 1970s era of price and allocation controls, and the current mishmash of "boutique" fuel requirements.

The actual regulations and laws enacted in pursuit of these goals often do not advance the stated purpose, which frequently serves as convenient window-dressing for interest groups looking for favors.

MOIP

After World War II the refinery capacity built up to serve the military's needs quickly refocused on producing gasoline for the booming domestic market. Freed from wartime scarcity and price controls, people bought cars and drove them, sending gasoline sales soaring. Many of the major oil companies invested heavily in developing new sources of crude oil in the Persian Gulf, Latin America, and elsewhere. These investments included construction of tanker fleets and oil terminals and acquisition of oil rights around the world. Production costs in the newly opened fields overseas were low enough that it was soon cheaper to import crude oil and refine it in U.S. refineries than it was to use domestic oil. As oil imports rose during the 1950s domestic producers and refiners who had not invested in access to the cheap foreign oil worried (correctly) that they were losing market share to foreign oil

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producers and the refiners who had made those investments.

Rather than playing catch-up in the marketplace, however, the disgruntled domestic oil producers and smaller and inland refiners headed to Washington, where they began a relentless lobbying campaign for restrictions on oil imports, citing the detrimental effects of competition from abroad and national-security concerns. At first the Eisenhower administration resisted the idea of quotas, then it experimented with "voluntary" quotas, but the administration ultimately gave in to the political pressure and created the Mandatory Oil Import Program. The program was in effect from 1959 to April 1973.

MOIP was simple in theory. Each refiner received a permit to import crude oil. The total number of barrels authorized was set below the amount that would have been imported in a free market. Refineries' allocations of the permits started with a proportional share of this smaller total based on their prior level of imports, but these amounts were then adjusted in attempts to achieve various policy goals and reward particular interest groups. Crucially, every refinery got some permits, even if it had not imported any oil previously, and smaller refineries received a disproportionately large share of the permits. The permits were made tradable, making it possible for refiners that received permits, but did not need imported oil, to trade or sell them.

The MOIP also proved to be a classic example of the unintended consequences of regulation.

This system had five important effects. First, domestic oil producers got their reward as domestic crude prices were higher than they would have been in the absence of the quota system.

Second, because domestic prices were artificially above the world market price, the right to import the cheaper foreign crude granted by the permits became quite valuable.

Third, the major oil companies that had invested in tankers and terminals learned their lesson and shifted their investment dollars to lawyers and lobbyists who could find profits in the pages of the *Federal Register.* Within a few years they had learned to play the game well enough that they no longer opposed the MOIP.

Fourth, anyone who could slap together something that could pass as a refinery now had an incentive to do so, leading to a rapid expansion in the least expensive and least sophisticated refinery sector as new entrants built "teakettles" to get quotas. As a result U.S. refineries tended to lack the capacity to handle high-sulfur crudes, which have become an increasingly large proportion of the crude supply.

Finally, because independent ownership of refineries maximized quota allocations, consolidation in the industry was discouraged, leading to lower operating efficiency. (A group of refineries can often be operated more efficiently than an individual plant, because joint management allows operators to use equipment at one plant to prevent a bottleneck from developing at another.)

All that is bad enough, but the MOIP also proved to be a classic example of the unintended consequences of regulation. When the MOIP was enacted it allowed imports only under the permit system. Almost immediately, however, the Canadian government objected that limiting oil imports from Canadian oil fields through pipelines to refiners in the northern Great Plains was counterproductive. Not only would the limits hurt Canada, since the oil had no other export route, but the Canadians argued that it made no sense on national-security grounds to reduce imports from a loyal ally across a secure land pipeline. This argument proved persuasive and regulations exempted land imports.

When the exemption was granted, however, no one remembered to retract the permits that had been issued to the "Northern Tier" refiners. These refiners had no access to any other source of crude—there being no crude oil pipeline connection between Minnesota and the Dakotas and no port where tankers could unload Persian Gulf or Latin American oil. As a result, these refiners now found themselves with both access to the Canadian oil and valuable import permits that they physically could not use. So they sold and traded the permits to other refiners and pocketed the proceeds. On discovering the mistake, the federal government attempted to take back the permits. The "Northern

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Tier" refiners fought back with the aid of valuable allies like Minnesota Sen. Hubert Humphrey and succeeded in retaining what became known as the "double dip" for years.

That was just the first level of unintended consequences, however. Mexico soon came knocking on the State Department's door, complaining of the special treatment Canadian oil was getting. True, Mexican oil was not imported via a land route, but wasn't the Caribbean virtually as safe? And wasn't Mexico vulnerable to communist subversion? Didn't national security dictate that some accommodation be found for a key ally and neighbor?

To mollify Mexico, the State Department lawyers found what was termed a "crevice" in the MOIP regulations on overland imports launching the "Mexican Merry-Go-Round." Tankers of Mexican crude sailed to Brownsville, Texas. The crude was unloaded into tank trucks, but remained outside the United States in the eyes of the law by being placed in customs bond, which prevented its transfer to Americans. The tank trucks were then driven across the border into Mexico, released from the customs bond, driven around a traffic circle, and then driven back into the United States, importing their cargo "by land." The trucks returned to the port, and the oil was loaded into tankers headed to the east-coast refineries. Since the oil had entered the United States via a land route, it was eligible for exemption from the MOIP quotas. This strategy boosted Mexican exports to the United States from 7,000 barrels to 40,000 barrels per day.

The next complaint came from Venezuela, which pointed out that it too was an important Latin American ally and that there was a limited market for its heavy, sour crudes outside of U.S. refiners. An exemption for "resid," or "residual fuel oil," a minimally refined product, followed and industrial users in the northeastern United States began using Venezuelan resid largely because it was exempt from the quotas. The result was that the ratio of domestic resid production to resid imports fell from 1.42 before the MOIP to 0.46 during it, demonstrating a clear substitution of the foreign product for the domestic one. The exemption basis for the success of Venezuelan resid became clear when the end of the MOIP triggered a massive conversion to natural gas and distillate fuels by U.S. resid users.

Perhaps most ironically, it was the oil-rich countries' concern over the impact of the MOIP on their ability to export to the United States that proved to be a key factor in spurring the formation of the organization now known as OPEC, surely one of the most counterproductive impacts of a policy in history.

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Price and Allocation Controls

The proliferation of exemptions and special provisions by 1970 made the MOIP more of a sieve than an effective regulatory barrier, and the Nixon administration considered abolishing it. But Nixon was worried about energy prices as a factor in inflation, and the price controls imposed in August 1971 froze domestically produced and refined oil product prices. The price freeze had no impact on world prices, of course, and as these continued to rise, refiners dependent on crude imports were required to sell their products at a loss. The federal government continually modified the price controls, attempting to address the growing problems that this massive interference in the operation of the free market produced. Politics dictated the adjustments, however, with Nixon refusing to allow increases in politically sensitive commodities like home heating oil and gasoline. By 1973, when the Arab oil producers declared an embargo on shipments to the United States in retaliation for U.S. support for Israel in the Yom Kippur War, there had already been calls for a government allocation scheme to control crude supplies and distribution of refined products. A series of proposals created in response to these special-interest demands

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were cobbled together into a "response" to the oil embargo and passed as the Emergency Petroleum Allocation Act (EPAA) in 1973.

Not surprisingly the EPAA made the embargo's impact worse. Mistaken assumptions that consumption patterns would not change and bad weather predictions, together with politically driven decisions about the appropriate product mix, left some regions awash in gasoline while shortages caused long lines elsewhere. But because the government dictated distribution patterns, the federal government ensured that areas with surplus gasoline could not send them to areas experiencing shortages and so exacerbated the initial misallocation problems.

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Each misstep led to further expansions of controls—the Nixon administration even instituted a price freeze dubbed "Phase III½" to give the bureaucracy time to catch up on the flood of problems caused by Phases I to III. The crowning misstep in the program was Phase IV's introduction of a distinction between new and old domestic oil supplies. Old supplies were price-controlled to prevent "windfall" profits; new ones were allowed higher prices to provide an incentive to expand supply. Of course, the distinction also meant that there was considerable money to be made if an oil well could be reclassified from "old" to "new," and an industry sprang up doing exactly that.

The 1976 presidential campaign put pressure on both the new Ford administration and the Democratically controlled Congress to demonstrate that it had done something about energy issues. Desperate for a showpiece for voters, the administration and Congress produced the incoherent Energy Policy and Conservation Act (EPCA) of 1975, which managed to include both measures that would lead to price increases and others that would push prices down. Economic opinion of the EPCA was that it was "infinitely worse" than the prior programs because it left out the market-based quota-trading provisions of the MOIP and instead allowed transfers of quotas only at government-set prices.

The regulations issued under the EPCA granted entitlements to fuel to anyone with a refinery; energy analyst Daniel Yergin concluded in his massive history *The Prize* that "the result was the bringing out of mothballs any piece of 'refining junk' that could be found—leading to the return of hopelessly inefficient 'tea kettle' refineries of the kind that had not been seen since the flood of oil in the East Texas field in the early 1930s." It also tilted allocations toward small refiners, ensuring that large refineries ran at less than maximum efficiency and so increased costs and rewarded the least efficient players in the market. Economists Kenneth Arrow and Joseph Kalt calculated in 1979 that the EPCA was worth $17 billion to special interests in 1979. The Carter administration began the move toward decontrol of oil prices, but these efforts were impeded by concerted special-interest pressures.

It took the election of Ronald Reagan to speed up the phase-out of energy price and allocation controls. The Reagan administration brought in a period of relatively relaxed regulation of energy markets, and the results confirmed what economists had predicted. The small, inefficient refineries set up to obtain quotas quickly closed (23 in 1981 alone), while refining technology improved as the more efficient refineries expanded capacity.

Boutique Fuels

When drivers fill up their tanks they rarely notice anything different about their gasoline whether they are in Denver or Detroit. But gasoline has evolved

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from the "straight run" distilled from crude by early refiners to a highly complex fuel whose characteristics vary widely from location to location. For example, fuels sold at higher altitudes (Denver) are less volatile than those sold in lower altitudes (Detroit). Many of these variations are the result of refiners adapting gasoline to optimize performance under different altitude and weather conditions. Gasoline retailers have also spent millions on advertising campaigns aimed at convincing drivers that there is a difference in the mixture of additives that should lead the buyer to prefer a "tiger in the tank" (Exxon) to "the detergent gasoline" (Mobil). (Of course, Exxon and Mobil then merged into ExxonMobil, presumably giving drivers a cleaner tiger in their tanks.)

Beginning with the mandate to remove octane-enhancing lead additives from gasoline in the 1970s, however, the federal, state, and local governments have exerted increasing control over the formulation of gasoline—in the name of improving environmental quality and increasing (you guessed it) national security by substituting locally produced ethanol for a portion of the gasoline. As the number of formulation requirements increased they came to be known as "boutique fuel requirements" because they made it impossible to sell gasoline formulated for Tucson in Phoenix.

There is no question that some measures can make gasolines burn cleaner. Removing lead octane enhancers from gasoline, for example, produced major environmental quality improvements, although the replacements for lead brought their own environmental problems. What is questionable is whether the particular mandates imposed by various regulators actually accomplish that goal and what the cost of splitting the gasoline market into an assortment of boutique markets is. And many of these mandates (particularly the use in the 1990s of MTBE and the current mania for ethanol) have little or no benefit and actually can be harmful to the environment.

Three things should make us worry about boutique-fuel mandates. First, by fragmenting markets, they are raising the cost of gasoline in the same ways as the 1970s allocation programs. The best statistical evidence suggests that they have increased prices in many instances, although EPA denies this. Second, limiting the sources for fuel for many regions to a small number of refineries set up to produce particular blends leaves those markets' supplies vulnerable to refinery closures from accidents, natural disasters, and routine maintenance. Finally, boutique requirements reduce the availability of gasoline imports from foreign refineries. For example, European refineries produce more gasoline than is needed to satisfy European demand for gasoline (which is lower because of the much higher proportion of diesel-powered passenger cars in Europe). Because those refineries are primarily concerned with producing diesel for their home markets, however, the gasoline they make is not compatible with some U.S. fuel requirements. Since there are other buyers for this gasoline (like China), the refineries have little reason to make the large investments necessary to produce a U.S.-boutique fuel. But because U.S. refineries lack sufficient capacity to meet U.S. demand, any shift away from exports of European gasoline to the U.S. market will cause shortages and price hikes here.

Energy markets have demonstrated the power of private enterprise each time they have been permitted to function freely.

Energy markets have demonstrated the power of private enterprise each time they have been permitted to function freely. A waste product, gasoline, became a valuable commodity, and production yields soared. Better engines required higher octane, and the quality of gasoline increased dramatically. But as this brief account describes, the American gasoline market has moved away from a national market and toward a series of fragmented regional markets. Further, domestic refining capacity is well below what a free market in gasoline would have produced in the absence of the pervasive government interference of the 1960s and 1970s. The combination leaves the market fragmented and vulnerable to price spikes caused by everything from hurricanes to refinery fires. If we want to fix gasoline markets, the first step is to take the bureaucrats *out* of the process.

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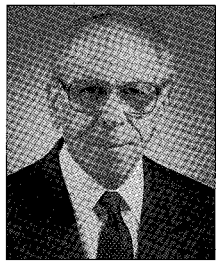

Medicalizing Quackery

BY THOMAS SZASZ

The *Merriam-Webster Online Dictionary* defines "medicalize" as "to view or treat as a medical concern, problem, or disorder" and offers this phrase as illustration: "those who seek to dispose of social problems by *medicalizing* them." Accordingly, we speak of the medicalization of homosexuality and hostility, but do not speak of the medicalization of malaria or melanoma.

The concept of medicalization rests on the assumption that some phenomena belong in the domain of medicine and some do not.

However, where a thing "belongs" is the result of how we classify the "thing," that is, the result of (more or less arbitrary) human action. Is an anencephalic baby a human being? Is smoking crack a crime, a disease, a right? Answering such questions is what religion, politics, and, today, medical ethics is all about. The point to keep in mind is that, unless we agree on *clearly defined criteria that define membership in the class called "disease" or "medical problem,"* it is fruitless to debate whether any particular act of medicalization is "valid" or not.

> We must draw a line between what counts as medical care and what does not. The question is where to draw that line.

Everything that we do or happens to us affects or depends on the use of our body. In principle we could treat everything that people do or that happens to them as belonging in the domain of medicine. Conversely, we could maintain that nothing that we do or happens to us belongs in the domain of medicine because all is ordained by God and belongs in the domain of religion. Such, indeed, was the case in ancient times, before people distinguished between faith healing and medical healing. A similar view is held today by Christian Scientists, whose faith is based on a radical denial of the reality of the material world. For them, only the spiritual realm exists or is "real." Nothing belongs in the domain of materialist medicine. Christian Science represents the most radical case of demedicalization possible.

Contemporary public health is the mirror image of Christian Science. Everything in our lives—housing, food, education, work, recreation, and procreation—affects our health. Hence, everything—not only health care narrowly defined—belongs in the domain of medicine as health care. Linda Landesman, a former president of the Public Health Association of New York City, states: "We expect and demand that government ensure that we breathe clean air, drink safe water, work with minimum danger . . . . Left on our own, we don't always make the healthiest choices." In this view, we are uninformed, undisciplined children whose health and well-being require the unremitting protection of the therapeutic state.

In practice we must draw a line between what counts as medical care and what does not. The question is where to draw that line. What is a disease and what is not? What should be treated medically, by physicians or medical personnel, and what should not? Because people in modern societies expect the state to defray all or most of the cost of what is deemed a "medical service," where we draw the line between "health care" and "not health care" is informed more by economic and political considerations than by medical or scientific judgments.

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Moreover, not only must we demarcate disease from nondisease, we must also distinguish between medicalization from above, by coercion, and medicalization from below, by choice. Not by coincidence, these strategies match psychiatry's two paradigmatic legal-social functions, civil commitment and the insanity defense, social control and excuse-making.

Disease and the Patient Role

The difference between disease as objective physical condition and the patient role as social status is obvious, provided we are willing to recognize it. Having a disease and occupying the patient role are independent variables: not all sick persons are patients, and not all patients are sick. Physicians, politicians, the press, and the public nevertheless continue to confuse and conflate the two categories. This is a cultural setting conducive to the growth of medicalization.

The Imaginary Invalid

Medicalization is a two-way street. Until recently, homosexuality was considered a disease. Today it no longer is. Has it been cured out of existence? No. It has been demedicalized. At the same time, hundreds of behaviors never before treated as medical problems are now diagnosed as diseases: for example, "gender disorder" and "substance abuse." Have these new diseases been discovered? No. They have been invented; that is, they are the products of medicalization.

Ironically, technological advances in medicine, combined with the conflation of the concepts of disease and patient role, facilitate not only medicalization but also confusion between discovering diseases and creating diagnoses. As a result, when a behavior categorized as a disease is "declassified"—as happened with homosexuality—journalists, science writers, and the public are easily persuaded by the stakeholders in medicalization that demedicalization is also a product of scientific progress and moral enlightenment, and not the product of a power struggle between stigmatizers and stigmatized.

Neither medicalization nor demedicalization is a new phenomenon. Formerly, people spoke about imaginary diseases and persons who pretended to be ill. Molière (1622–1673), the great satirist of malingerers and of the quacks whose harmful ministrations they invite, titled one of his plays *The Imaginary Invalid (Le malade imaginaire)*.

Although medicalization encompasses much more than psychiatry, we must be clear about one thing: Psychiatry is medicalization through and through. Whatever aspect of psychiatry psychiatrists claim is not medicalization can only be such if it deals with proven diseases of the central nervous system, which belong to neurology, not psychiatry. (Psychoanalysis and other forms of psychotherapy, qua medical practices, are of course also instances of medicalization.)

Semantic-Social Strategy

In short, medicalization is not medicine or science; it is a semantic-social strategy that benefits some persons and harms others. In the past the persons most clearly benefiting from medicalization were psychiatrists and the persons most obviously injured by it were mental patients. "[T]he medical treatment of [mental] patients began with the infringement of their personal freedom," observed Karl Wernicke (1848–1905), the pioneer German neuropathologist. Today the situation is more complex, more "democratic." Anyone may, at some time, be helped or harmed by medicalization; the only consistent gainers from it are the agents of the therapeutic state.

Formerly the priest was both protector and punisher. Today the physician plays both roles. Formerly people could not imagine living in a society unguided and uncontrolled by God: church and state formed a holy union called "theocracy." Today people (in the West, but not in the East) cannot imagine living in a society unguided and uncontrolled by science, especially medical science: medicine and the state form a "healthy union" called "pharmacracy."

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Are High Taxes the Basis of Freedom and Prosperity?

BY SUDHA R. SHENOY

In the November 2006 *Scientific American*, Jeffrey Sachs, economic consultant to governments and the UN, argues (yet again) for higher U.S. taxes and more U.S. government officials with ever-increasing powers over their subjects. These perennial and inevitable conclusions are hung (here) on a Nordic peg.

According to Sachs, F. A. Hayek, "the Austrian-born free-market economist, . . . suggested that high taxation would be a 'road to serfdom,' a threat to freedom itself." There is now, however, "a rich empirical record to judge [this] scientifically." "The evidence" (he says) comes from comparing the Nordic social democracies (Denmark, Norway, Sweden, Finland) with the Anglophone developed countries (Canada, the United States, Britain, Ireland, Australia, New Zealand).

Jeffrey Sachs

The Nordics (he says) have met the challenge of "sustainable development": they have reconciled "the . . . power of markets" with the reassurance and protection of (governmental) "social insurance." They "combine . . . respect for market forces with . . . anti-poverty programs." And "[t]he results . . . are astoundingly good" for households with the lowest incomes.

Thus Nordic income per head of working-age population is 4.5 percent higher than in the lower-taxed Anglophone countries. The Nordic unemployment rate is only slightly higher than the Anglophone rate (6.3 percent versus 5.2 percent). The Nordics have far higher budget surpluses as a proportion of GDP. In short, the Nordic territories "outperform" the Anglophones on average (in terms of these measures).

"Despite [their] high taxation," the Nordic countries are highly dynamic: "they spend lavishly on higher education" and on R&D. While only 1.8 percent of Anglophone GDP goes to R&D, the Nordics spend 3.0 percent—two-thirds as much again. Sweden has the world's highest ratio: "nearly 4 percent of GDP." All, "especially Sweden and Finland," have gained "global competitiveness" through the information-technology and communications revolution. In addition, the Nordics have "relatively low" taxes on capital.

In the Nordic areas 27 percent of GDP (on average) goes to "social purposes" via government; the Anglophone figure is only 17 percent. Nordic labor policies direct the "low-skilled" to "key quality-of-life areas such as child care, health, and support for the elderly and disabled." The Nordic "poverty rate" is 5.6 percent—less than half that of the Anglophones, which is 12.6 percent.

Thus (according to Sachs) high taxes and high "social spending" have *not* "crippled prosperity" in the Nordic territories: "Von Hayek was wrong. In strong . . . democracies, a generous social-welfare state [is] a road to . . . fairness, . . . equality and international competitiveness," not serfdom.

Now, Sachs, of course, speaks for U.S. government officials and their academic advisers. All have a vested interest in raising taxes and government spending and in increasing the numbers of government officials, ever-

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more. Let us, however, "scientifically" take another look at the "rich empirical record."

(What we'll find: Scandinavia, especially Sweden, is an officials' dream come true. On average, over half of people's income is confiscated. It is Scandinavia's long-established integration into the growing international economy that has in fact continued to supply Scandinavians with their incomes, which officials then tax away.)

1. Between 1960 and 1990: Among OECD (Organization for Economic Cooperation and Development) countries, those with the largest government sectors (spending in excess of 60 percent of GDP) had the *lowest* growth rates. Those with the smallest proportion of government spending (less than 25 percent of GDP) had the *highest* growth rates—more than four times faster.

Between 1990 and 2005: the average overall tax burden came to 61 percent in Sweden, 58 percent in Denmark, and 55 percent in Finland.

F.A. Hayek

2a. Between 1970 and 2003, in OECD rankings of economies: Denmark declined from third to seventh place; Sweden fell from fifth to 14th. Finland rose from 17th place in 1970 to ninth in 1989, then fell back to 15th in 2003.

2b. Over the same period (1970–2003) Ireland shot up from 22nd to fourth. In 1989 Irish taxes and government spending equaled 53 percent of its GDP. In 2006 this had fallen to 35 percent.

2c. In 2004: Irish productivity per working hour was nearly 26 percent higher than in Finland, just over 29 percent greater than in Sweden, and a whopping 43.2 percent above the Danes.

3. During 1995–2004: Compared with Sweden, the lowest incomes rose more than six times faster in Britain and more than eight times faster in Ireland. In 2004, 20 percent of Swedish households fell below the official "poverty line," compared with around 18 percent in Britain and just under 15 percent in Ireland. In short, those with the very lowest incomes improved their position much, much more in lower-taxed Britain and Ireland than in higher-tax Sweden.

Over the same period, when the rise in the lowest incomes is compared with the average increase: Britain did 2.5 times better than Sweden, while Ireland was 2.35 times better. In other words, the lowest incomes came far, far closer to the average in low-tax Britain and Ireland than in high-tax Sweden.

4. Between 1981 and 2003: private-sector employment rose 56 percent in low-tax Ireland. There was a 12 percent rise in Denmark—in very low-productivity "employment" (see above, 2c.) But in high-tax Sweden and Finland, *no* new private-sector jobs were created. In other words, the government took the entire increase in the labor force over some 22 years. With the same number of people employed in the private sector and low growth rates overall, real incomes just about stagnated. From these stagnant real incomes, people had to pay ever-increasing taxes and support ever-increasing government officials and ever-increasing government spending.

5. According to a working paper prepared for the European Central Bank in 2003: Sweden, Finland, and Denmark have the most *in*efficient government sectors of all OECD countries in terms of the use of inputs. In Sweden the same level of output could be obtained for only 57 percent of the input. For Denmark this figure is 61 percent, for Finland, 62 percent. In other words, some 43 percent of the labor and other resources "used" in the Swedish government sector are—in effect—idle. The proportion effectively idle in the Danish government sector is 39 percent, and 38 percent in Finland.

In Sweden doctors saw an average of nine patients a day in 1975. In 2005 they saw four—or less than half as many. More than half of all patients have to wait 12 weeks to be examined and then at least as long again for treatment. In short, for most Swedish patients, from just making the appointment to seeing the doctor to actually getting treated, there's a gap of some 24 weeks at least. (You'd better not fall sick in Sweden.)

6. Even in the later 1980s, Swedish doctors worked only some 57 percent of the hours that American doctors worked. And as early as the 1970s, doctors, dentists, lawyers, and so on worked only a few months each year—to avoid astronomical tax rates. By the 1970s

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retailers asked buyers: "With or without receipt?" while house painters, mechanics, plumbers, and more all operated largely in a cash economy. Books were already being published on avoiding tax for those on average incomes.

7a. The actual unemployment rate is disguised by classifying large numbers under other heads: (a) make-work in the government sector, (b) "early retirement," (c) long-term "sick," and (d) university "students" who are in fact avoiding open unemployment.

7b. The so-called "unemployment trap" is extremely high in Denmark and Sweden. When necessary expenses like transport, food, and so on are included, the lowest take-home pay is *lower* than the government payments received.

8a. All large Swedish companies, save one, were established in the late nineteenth century or in the late 1920s. Business taxes are very low, but they overwhelmingly favor larger established companies. Unincorporated-business income is taxed as heavily as personal income, but dividends and company incomes at much lower rates. Taxes on capital gains, however, are the highest in the world in Denmark and Finland.

8b. Labor mobility is low, which reduces productivity. People are stuck in unsuitable jobs. Labor input is also far less in practice: Some one-fifth of the workforce is absent, on average—double the proportion in the 1970s. In 1988 Swedes took an average of 26 days of sick-leave; this was still true in 2002. In addition, there are numerous other grounds for people to be absent *with* pay.

"One Size Fits All"

9a. The "welfare" state must operate on the principle of "one size fits all," of course. Thus in Sweden the state supplies all childcare, schooling, medical services, and aged care, except for a minuscule proportion. But even here, "private" suppliers are paid from taxes. Swedish legislation virtually prohibits *direct* private purchase of alternatives.

9b. The tax system virtually forces women with children to work, so their children can go to state child care. This goes from preschool to after-school for older children. All this raises "employment" figures: Childminders are "employed" while mothers at home are not.

"Private" childcare is state-funded and has to charge the same low fees as the state system. "Private" childminders are also paid by the state. Officials can ban any adult from caring for children in his or her own home. Even family arrangements have to be reported under threat of prosecution; the proposed carer—even granny—is investigated (for a criminal record) and inspected annually.

9c. Up to 1992 there were virtually no private schools in Sweden. Then "vouchers" were introduced. "Private" schools are forbidden to charge fees. Thus taxes pay for all "private" schools, and they are prevented from competing on costs.

One aspect of the Swedish "welfare state" is particularly disturbing: the power that official "social workers" have over children.

9d. The overwhelming bulk of people have to depend on state-supplied medical services. Government entities now buy an extremely small percentage of hospital services and aged-care services from "private" suppliers. The latter's costs are lower, of course, and the entities' employees are happier than when they were part of the government. Only a handful of the extremely wealthy have private health insurance.

9e. "Pensions" are paid from payroll taxes. There are both flat-rate and earnings-related pensions. In the 1990s Swedish officials required all employees, additionally, to pay a minute fraction of their incomes into "private" pension funds or into a government fund in default. All such payments are channeled through a new set of officials; payers and funds have no direct contacts at all. This minuscule "change" is seen by politicians, officials, their academic advisers, journalists, and so on as earth-shaking. It has just been announced that future state pensions will be well below those being paid currently. Only a handful of the wealthy have private pension plans with an insurance company.

9f. One aspect of the Swedish "welfare state" is particularly disturbing: the power that official "social workers" have over children. Children can be removed from

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parents and put into foster care for a wide variety of reasons. Disputes go before special administrative tribunals, not the ordinary courts. So the whole situation is stacked in favor of the official and against the parent. Foster parents receive tax-free payments from the state. In high-tax Sweden this is a huge advantage, which results in really good incomes.

A comparison with England underlines the power officials have in Sweden. In November 2001 some 21,500 employees of municipal social services in Sweden were assigned to "individual and family care." This amounted to one children's social worker per 414 people of all ages. In England in 2005 there were some 33,980 staff (full-time equivalent) who dealt with children and families. This came to one such official for every 1,484 people in England. Thus, *pro rata*, Sweden has nearly 3.6 times as many children's "welfare" officials as in England. Are Swedes really some four times more prone to child abuse and neglect than the English?

Not surprisingly, when it comes to children forcibly removed from their parents and put into official care, Sweden runs well ahead, *pro rata*. In 2003 in Sweden there was one child in official hands for every 598 Swedes. In England in 2005 there was one child in "care" for every 836 residents. Thus—*pro rata*—there were 40 percent more children in Sweden who were officially taken away from their parents as compared with England. Are Swedish parents really 40 percent more incompetent and feckless than English parents?

State-Dominated Housing

10. Housing in Sweden: Government officials dominate here too. Only some 39 percent of all "dwellings" are owner-occupied. Some 21 percent are privately owned rental housing; 20 percent are rental housing provided by municipally owned companies; and 17 percent are cooperatives. The latter received state subsidies from the 1920s to the late 1990s. Municipal companies receive state subsidies from general taxation and some capital from municipal taxation. They pay only a "reasonable"—that is, subsidized—interest rate on this last. Their income is made up from rent and subsidies.

Thus around 37 percent of all "dwellings" in Sweden are built from taxation, largely or entirely. Only some 60 percent of housing is provided completely through private saving.

Anyone may rent a municipal flat—there are no income limits. Municipal companies are obliged by statute to provide housing for those with lower incomes. Swedish officials regard "income segregation" as undesirable so they accept higher-income tenants too.

In municipal housing, officials ask tenants to assign values to such things as the location; their living area; its standard, general amenities; convenience to state transport; and so on. Rents are set by negotiations between the municipal company and its tenants' association, but rents also have to include an allowance for continued maintenance and cover the expenses of the highest-cost municipal company. Private rents are higher and are negotiated between landlords' and tenants' associations.

> All three territories are simply sectors of the world economy and have been since the late nineteenth century.

Private tenants may appeal their rents to an administrative tribunal. In 90 percent of cases the tribunal simply decides whether the rent is "reasonable." In 10 percent of disputes the private flat is compared with a local municipal flat and 5 percent is then added to the private rent.

11. Exports: Norway is one of the world's largest oil exporters from the oilfields deep under the North Sea. An American audience cannot know this, of course, so here Sachs is silent. In 2005, 68 percent of Norwegian exports consisted of oil and natural gas.

Sweden, Finland, and Denmark are overwhelmingly integrated into the global economic order. In 2005, foreign trade—exports and imports combined—equalled 90 percent of total output in Sweden; 80 percent in Finland; and 88.5 percent in Denmark. In short, all three territories are simply *sectors* of the world economy and have been since the late nineteenth century.

Thus their major export goods were developed mainly in the late nineteenth century and in some cases, *very* much earlier.

Let us take Swedish exports for the eight months

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from January to August 2006. Pharmaceutical goods, chemicals, metal manufactures, industrial machinery, optical goods—all together these equaled 28 percent of the total. Swedish firms have exported these items since the late nineteenth century. Timber and its products, iron ores, other minerals, and iron and steel together came to 22 percent. Sweden has exported these goods since the late fifteenth century at least. Telecommunications came to 14.3 percent. This includes telephones, made in Sweden since the late nineteenth century. "Transport equipment"—Volvos and Saabs—equaled 13.8 percent. Sweden has exported these since the late 1920s.

Advanced telecommunications also formed only a small percentage of Finnish exports in 2006; the bulk were already in place in the late nineteenth or early twentieth century. Electrical and optical products came to 24.5 percent; wood-pulp, paper, and wood products equaled 16.2 percent; basic metals, machinery, and equipment formed 26.2 percent.

The same picture is found in Denmark in 2005. Exports of foodstuffs (butter, cheese, bacon, fish, and so on), timber, and other primary products—important since at least the late nineteenth century—came to 15.8 percent. Medicines, pharmaceuticals, and chemicals came to 13.7 percent. Machinery and instruments—many items produced in Denmark since the late nineteenth century came to 26.4 percent. Textiles, clothing, furniture, and glassware—distinctively Danish—equaled 9.7 percent, energy, 10.3 percent. (For further reading, see Lorraine Mullally and Neil O'Brien, eds., *Beyond the European Social Model*, 2006, available online at http://tinyurl.com/ynqnp4.)

12. Thus it is by participating in a growing international economy that Scandinavians produce increasing outputs. These are largely taxed away and allocated by bureaucracy. People's continuing toil puts growing resources into government officials' hands.

As a government adviser, Sachs must naturally see officials' activities as the source of all goodness, including international competitiveness. The causation is rather the other way about. Successful integration into the international economic order produces output that officials then tax and remove from the people. Then officials (under the relevant authorizing legislation) use the revenues to support themselves (and their families), and to spend money or disburse it to authorized recipients under various authorized headings, namely, pensions, other incomes, schooling, medical and hospital services, aged care, child and after-school care, and so on. From the standpoint of government officials, and therefore their academic advisers, this is a delightful paradise. Naturally, therefore, Sachs describes this as "a generous social-welfare state . . . fairness . . . equality . . . international competitiveness." This is exactly how it appears to the *officials* involved.

Successful integration into the international economic order produces output that officials then tax and remove from the people.

Finally, my editor asks me: "Why do the Nordics put up with it? What about the high disincentives?" One answer is: precisely the almost complete integration into the international economy. The output comes from large and small firms integrated into international production. These firms and their employees can hardly vanish into an underground economy. They *must* remain visible. Even if the firms, as legal entities, acquire another "nationality"—as many have done—their operations and employees remain in Scandinavia. This is because of the skills and expertise built up over the decades and centuries. Swedish steel must continue to be manufactured in Sweden. Volvos made in Portugal lack some intangible something compared with Volvos made in Sweden. Bang & Olufsen made in Bulgaria sounds dubious; made in Denmark, it does not.

Moreover, heavy taxes are levied on *individuals*, not businesses. The incomes are captured at the point where there can be least escape.

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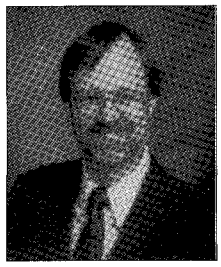
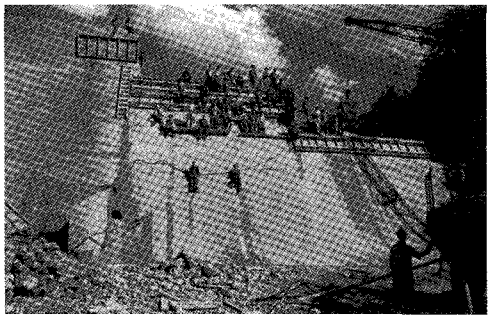


Subsidies Hurt Recipients Too

BY BURTON FOLSOM, JR.

More than ever, historians need to study the economic consequences of government programs. Only by analyzing the results of past government intervention can we calculate the impact of future government intervention.

The Tennessee Valley Authority (TVA) provides a useful example. Established as part of the New Deal in the 1930s, it was a favorite program of Franklin Roosevelt's. Under the TVA the federal government built dams and generated hydroelectric power for residents of the Tennessee Valley. In the 1920s President Calvin Coolidge vetoed a TVA bill twice, and President Hoover vetoed it once. Both men believed that federal funding was unconstitutional, but FDR disagreed and signed it into law in 1933.



Workers constructing the Big Ridge Dam in Tennessee, 1935

Many historians have praised the TVA as a centerpiece of the New Deal. "The TVA," wrote William Leuchtenburg, dean of New Deal historians, "was the most spectacularly successful of the New Deal agencies, not only because of its achievements in power and flood control, but because of its pioneering in areas from malaria control to library bookmobiles, from recreational lakes to architectural design."

Most historians have agreed.

But as TVA grew, some observers noticed problems. Standard bureaucratic inefficiency was one. Second were the Tennesseans who had to be relocated because of the flooding of land and destruction of property. Third were the existing private companies, such as the Tennessee Electric Light and Power Company, that had to compete with the taxpayer-subsidized TVA.

In fact, the taxpayer subsidy for TVA created what economist Henry Hazlitt called an "optical illusion." "Here is a mighty dam, a stupendous arc of steel and concrete . . . ." Hazlitt observed, "[a]nd it is all presented . . . as a net economic gain without offsets."

But 98 percent of the American population was subsidizing the 2 percent in the Tennessee Valley. "Again," Hazlitt concluded, "we must make an effort of the imagination to see the private power plants, the private homes, the typewriters and television sets that were never allowed to come into existence because of the money that was taken from people all over the country to build the photogenic Norris Dam."

What appeared to some Tennesseans to be an "economic miracle" was merely a transfer of wealth. But the voters in Tennessee made sure that they protected the TVA subsidy, and it has persisted and increased over time.

The case for the TVA (voters improving their lives through a federal subsidy) and the case against the TVA (bureaucratic inefficiencies plus the drain of taxpayer dollars) became standard arguments used to support or oppose other federal subsidies—both during and after the New Deal years.

Then came William U. Chandler with a devastating book, *The Myth of TVA,* written in 1983. Chandler said the problem was more complicated than that of the whole nation subsidizing a small part. He said the Tennessee Valley's prosperity was actually being held back by the TVA.

Chandler's evidence was astonishing. For example, Georgia, which had nothing equivalent to the TVA, and Tennessee had nearly identical levels of income before the TVA, but during the 1940s and 1950s Georgia (and other states nearby) began pulling ahead of Tennessee.

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"Among the nine states of the southeastern United States," Chandler concluded, "there has been essentially an inverse relationship between income per capita and the extent to which the state was served by TVA. . . ."

How can receiving a giant dam and reduced costs of electricity stymie economic development? Chandler concluded that the cheap electricity gave farmers in Tennessee incentives to remain in small-scale agriculture rather than move into more promising areas of manufacturing, industry, and services. Meanwhile, many farmers in Georgia and North Carolina improved their education and moved to Atlanta, Raleigh, or Charlotte to start or work for businesses.

Chandler further discovered that people in the TVA area were even slower to adopt and use electricity than were people just outside the TVA area. With their ever-increasing incomes, Georgians and North Carolinians could afford more electricity than the more stagnant population in the Tennessee Valley.

Chandler's research should make all students of government intervention pause. The massive subsidy for the TVA hindered economic growth in the exact area targeted for federal help. If the TVA example is repeated elsewhere, that is a powerful argument against government subsidies—perhaps the strongest argument that can be made (outside the constitutional argument).

The TVA lesson does have widespread applicability.

In fact, the TVA lesson does have widespread applicability. One of America's first large subsidies was a multimillion-dollar gift to Edward Collins in the 1840s to build and operate four steamships to and from England to deliver passengers, freight, and mail. With the cushion of federal aid, Collins had no incentive to innovate with steel hulls or engine technology. Like the farmers of the Tennessee Valley, he could make do with federal help so why try something different? Within ten years Collins had lost the competitive race to Cornelius Vanderbilt, who had no federal subsidy but showed great innovation in steamship design and the economics of steamship operation.

The Union Pacific received tens of millions of dollars in federal aid and millions of acres of land to build a transcontinental railroad that was not as straight, not as well built, and not as stable as the Great Northern Railroad, which received not a cent of federal aid. The builders of the Union Pacific constructed their line to receive subsidies, not to transport passengers in the long run. James J. Hill had to compete with the Union Pacific, and he built the Great Northern piece by piece with the best track and over the best terrain possible. During the Panic of 1893, the Union Pacific went broke, but the Great Northern made profits each year. In some ways, the federal subsidy was actually the undoing of the Union Pacific.

Subsidies Change Behavior

Subsidies change the way the recipients behave, and these changes often work against, not for, them. That is the neglected argument against opening the door to federal aid in the first place; but it is an argument that needs to be studied and forcefully made.

The idea that recipients of subsidies are damaged by subsidies applies to individuals as well as businesses. The example of the rise of the welfare state is pertinent here. Americans naturally have compassion for people who are poor but who are trying to improve their lives. Federal aid, however, can stifle individual initiative. That is one reason charity was a private function in the United States so long. Private givers can more easily determine the quantity and duration of aid needed to restore broken lives.

During the 1960s, under the Aid to Families with Dependent Children program, money to unwed mothers increased substantially. As a result, recipients had an incentive not to get married or go to work because those activities would cause them to lose their federal assistance. Thus American taxpayers were not the only losers in the program. Recipients who never developed their talents were losers as well.

Most students of government intervention know that federal subsidies are a drain on those who pay for them. What needs more emphasis is that sometimes the recipients of tax dollars become worse off as well.

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Can We Be Free If Reason Is the Slave of the Passions?

BY FRANK VAN DUN

The writings of David Hume (1711–1776) are a treasure trove for those eager to find pithy, polished memorable quotes to bolster their arguments in favor of freedom, justice, and against the arrogance and follies of governments. It is difficult to resist the youthful élan of his major philosophical work, *A Treatise of Human Nature* (1739–40), his provocative ironic style, witticisms, irreverence, and occasional sarcasm, which made him an international celebrity, the darling of Parisian salons, and, even now, a reader's delight.

David Hume (1711–1776)

The English philosopher Sir Isaiah Berlin wrote of Hume: "No man has influenced the history of philosophy to a deeper and more disturbing degree." And there's the problem: Between Hume's time and our own, philosophy, to the extent that it is part of public life, has not been particularly supportive of the case for freedom as classical liberals and libertarians understand it. If Hume's influence was so profound and disturbing as it is said to be, then maybe we should wonder whether his philosophy had anything to do with this. Did it undermine precisely the sort of freedom that his age was beginning to see as the shape of things to come?

Hume wrote when the ideas of freedom, justice, and the rule of law were at their apogee in public discussion, and "English liberty" was the envy of many intellectuals on the Continent, where royal absolutism was still the rule. It was not his philosophy that had put these ideas in the spotlight but the philosophy of natural law. Natural law refers to the principles of order (law) in the human world that the mind can discover, no matter how great the conflicts of interest and opinion among persons. The natural-law philosophy held that those principles ought to be respected by all because they are true principles. The advocates of natural law readily acknowledged that people might not always perceive a personal advantage in conforming their actions to the law. However, they were confident that enough people were sufficiently open to reason to accept the validity of the natural-law principles and to use them in their active life.

Human nature was the key concept. It comprised the notion that persons, having the capacity to reason, also had the capacity to modify the perception of their interests so as to include due respect for the dictates of reason. The natural-law philosophy recognized that mastery of these capacities is unevenly distributed among individuals, but it did not see that as a reason to give up on the search for true principles and for ways to increase their weight in practical deliberations. Over the centuries it had erected an edifice of thought in which arguments about human affairs would have to be judged by objective principles—not particular subjective opinions, interests, sentiments, or sympathies, no matter how powerful or influential these might be.

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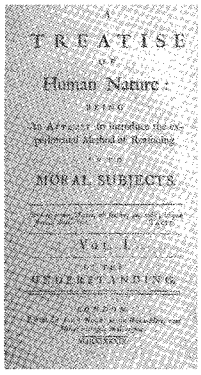
This is not to say that every writer who used the term "natural law" was as scrupulous in his reasoning as one might have hoped. Many could not resist the temptation to advance their pet schemes for organizing a particular society, its government, armed forces, educational institutions, and so on as "dictates of reason." There was junk and pseudo-natural-law theorizing then as there is junk and pseudoscience now.

Disturbingly, Hume was a prime agent in the modern intellectuals' fight against the philosophy of natural law, not only against its caricatures but also and primarily against its fundamental tenet: that reason ought to guide the actions of men. Hume's moral philosophy was an explicit denial of that proposition. Reason, it said, is and ought only to be the slave of the passions. Man is motivated by, and only by, self-interest—only considerations of utility can sway man to act one way or another.



Following in the footsteps of Thomas Hobbes, Hume asserted that morality has nothing to do with reason because reason is either philosophic (and then merely a system of definitions) or practical (and then merely a slave of the passions, an instrument without a finality of its own). That distinction replaced the one the natural-law tradition had made between theoretical or speculative reason and its application in particular circumstances. This substitution implied a radical redefinition of the role of the philosopher and scientist in public life, from the role of "conscience of the Prince" (holding up the mirror in which the rulers can see themselves as they are, not as they imagine themselves) to the role of "counselor of the Prince" (advising rulers on how to implement their designs most efficiently). More generally, and far more importantly, it redefined education, from a preparation for a life of reason to a program of socialization—preparing the young to function in their society by instructing them in the opinions and interests that define it.

It is true that Hume tried to explain some of the natural-law principles regarding justice, property, and contracts. However, to him they were not discoveries of the mind reflecting on the human condition, but inventions that were found to be "useful" and retained on account of their "utility"; their perceived utility was the only basis for taking them seriously. He may have thought that they were more useful in more circumstances than other institutions, say tipping waiters or separating the legislative from the executive power, but he did not think that they were of a different kind.

In his time, those natural-law principles, formulated before they were more or less systematically applied, were in their ascendancy as far as enlightened public opinion was concerned. Thus, as applied to his time, his philosophy seemed to support those principles, even if it was an attack on their traditional intellectual foundations. However, if the young Hume were writing today, when the winds of public opinion are blowing from another direction, he probably would not give the principles much attention. I suppose we'd find him attacking John Rawls and other rationalistic apologists for the welfare state with the argument that the welfare state, although not a discovery of reason, nevertheless is necessary for "polished society" and would not exist as a source of "moral obligation" if it was not perceived to be in "man's self-interest." For it is a corollary of his philosophy that in the affairs of man opinion, not reason, is the touchstone of truth.

True by Definition?

Hume had a predilection for unqualified (and unquantified) general statements, such as "Man does what he does out of self-interest." Of course, his philosophical undertaking was one of "pure reason," as he defined it: It was supposed to deal only with definitions and relations of abstract ideas, not with realities, historical facts, and the like. Thus the quoted statement is just a definition within a conceptual system. There is no need to quantify or qualify it. However, as Hume actually used it, his readers may be forgiven for assuming he meant it as a universally true descriptive statement.

Now, if we look at real individuals and specify self-interest, for example, as the possession of wealth or power, then the statement is obviously false. It remains false even if we attenuate it by adding "confined generosity" to "self-interest"—for in Hume's system acts of generosity are and must be explained in terms of self-interest. Only if we hold that whatever motive men

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have for doing what they do is "self-interested," by definition, can the statement be deemed true; but then it is a mere tautology: "Men do what they do." Likewise, on Hume's account, a person can be shown to have a moral obligation only if we can show him that its performance is in his self-interest as well as the perceived interest of others, who therefore are sympathetic to it and inclined to approve of it. That too is merely an arbitrary redefinition, this time of the term "obligation." Yet, again, Hume suggested, and many of his readers accepted, that no other account of obligation makes sense.

Let us take a look at what many regard as the most famous passage in Hume's *Treatise of Human Nature*. It is without doubt one of the founding texts of modern philosophy:

> In every system of morality, which I have hitherto met with, I have always remarked, that the author proceeds for some time in the ordinary way of reasoning, and establishes the being of a God, or makes observations concerning human affairs; when of a sudden I am surprised to find, that instead of the usual copulations of propositions, *is* and *is not*, I meet with no proposition that is not connected with an *ought*, or an *ought not*. This change is imperceptible; but is, however, of the last consequence. For as this *ought*, or *ought not*, expresses some new relation or affirmation, 'tis necessary that it should be observed and explained; and at the same time that a reason should be given, for what seems altogether inconceivable, how this new relation can be a deduction from others, which are entirely different from it. But as authors do not commonly use this precaution, I shall presume to recommend it to the readers; and am persuaded, that this small attention would subvert all the vulgar systems of morality, and let us see, that the distinction of vice and virtue is not founded merely on the relations of objects. . . . [Last paragraph of the first section of Book III, "Of Morals"]

This is Hume in full swing: A "small attention" gives you sufficient excuse for not reading any other moral philosophy. But how weighty is Hume's point? Certainly there are many examples that support his observation: one cannot deduce that one ought to believe in God from the fact that one is mortal, no more than one can deduce that one ought to be a socialist from the observation that the poor are human beings, or that one ought to go to the dentist if one has a toothache. However, the critical question, which Hume does not address, is whether there are counterexamples that invalidate his claim that it is "altogether inconceivable" that one could infer *ought* from *is*.

Hume's poison, like the scorpion's, is in the tail. Nowhere has he argued that *ought* cannot be "perceived by reason." All he has done is point to the elementary fact that *is* and *ought* are different relations.

When Hume mentions deduction, he must be understood to have in mind formal deduction, a replacement of an expression or sentence by another expression according to a fixed rule of logic. An example would be the rule "Given 'A is B' and 'B is C,' one may write 'A is C.'" With this rule, given the sentences "A lion is a mammal" and "A mammal is an animal," we can formally deduce the sentence "A lion is an animal," Hume's point, of course, was that an ought-statement cannot be a merely formal transformation of any is-statements. Therefore, it cannot be formally deduced from any series of given is-statements. If one nevertheless wishes to introduce *ought*, then one should explain why and how one intends to do so.

So far so good. However, the quotation does not give us the whole of Hume's argument. You could have guessed that from the ellipsis with which I terminated it. Let us replace that ellipsis with Hume's actual words: "[the distinction of vice and virtue is not founded merely on the relations of objects], nor is perceived by reason."

Hume's Fallacy

There it is! Hume's poison, like the scorpion's, is in the tail. Nowhere has he argued that *ought* cannot be "perceived by reason." All he has done is point to the

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elementary fact that *is* and *ought* are different relations. However, from "A is different from B" and "Reason can perceive A" it does not follow that reason cannot perceive B.

To appreciate the fallacious nature of Hume's argument, we should step back from his implied notion of deduction-within-a-formal-system and look at its relation to logical thinking or reasoning. We should not confuse any of the many proposed formalizations of logic with logic itself. ("Logic," from the Greek "logos," refers to the same thing as "reason," from the Latin "ratio.") Any system of formal logic is a construction, a product of a human mind. As such it is to be evaluated by human minds, specifically with respect to the claim that it is a formalization of logic. In other words, we need logic to construct a system of formal logic, and we need logic to evaluate the extent to which it captures the properties of logical thinking without bringing in elements that might lead our thinking to illogical conclusions. Without logic we cannot have formal logic. However, a formal system, whether or not we prefer to call it a formal logic, is merely a product of our logical thinking. It is not the same as the logic or reason that produced it. That logic, or reason, is one of our active capacities. (To grasp this point is to see how little Hume's "inert reason" has to do with human rationality.)

Thus the mere fact that we cannot "deduce" an ought-statement in a formal system that accepts as primary data only is-statements tells us nothing definitive about the logical relations between *is* and *ought*.

There are two obvious ways in which one could proceed to deduce *ought* from *is*: 1) one might look for an empirically observable *ought*, as it were, a fact that can be described by means of an ought-statement; or 2) one might look for a rule of logical inference that permits moving from *is* to *ought*. Hume's contention is that there is no such rule of inference. Therefore he can only proceed with his moral philosophy by turning to the first option: finding an observable *ought*.

However, Hume is wrong to say that no rule of logical inference permits us to move from one relation to another. Immanuel Kant suggested "Ought implies can" or its variant, familiar to lawyers, "Nobody ought to do the impossible." (However, Hume would not have been impressed: a collection of is-statements no more implies a statement such as "A cannot possibly be B" than it implies an ought-statement. He had famously argued that causal statements ["A causally necessitates B"] have no deductive cognitive basis. They are psychologically, not logically, related to the facts—just as our moral judgments are.)

Another example is: "If A is B then you ought to believe that A is B." What logical objection is there against assuming the validity of that rule? Suppose someone says to you, "John is ill but you ought to believe that that is not true." His proposition clearly is indefensible. Suppose you were to ask him why you should not believe what is true. He could begin to answer the question only by giving his "reasons" for not conceding that John is ill while conceding that he is. In short, he would have to concede that his "reasons" carry no weight—they are not reasons at all. Note that the sentence "John is ill" does not formally contradict the sentence "You ought not to believe that John is ill." Nevertheless, a human speaker—a rational or logical mind—would contradict *himself* if he were to commit himself to what these sentences express. The fact that "ought" and "believe" are not in "John is ill" may seem to block the inference that one ought to believe that John is ill—but only if we think of logic, as Hume did, in terms of relations and definitions encapsulated in an inert formal system. However, if we consider logic as an active capacity of the human mind, then that fact is utterly irrelevant.

> For an active mind, bridging the gap between *is* and *ought*, far from being "altogether inconceivable," is a common and often proper logical move.

Here we see where Hume was pulling the wool over our eyes. He had mistaken a product of reason for reason itself and jumped to the conclusion that the inertness of the product meant that its producer was equally inert. However, for an active mind, bridging the gap between *is* and *ought*, far from being "altogether incon-

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ceivable," is a common and often proper logical move. That gap, which is so obvious in a system of formal logic, actually means little as far as the critique of "vulgar systems of morality" is concerned. Few of these ask us to move from "A is B" to "A ought to be B." In some cases they make the Kantian move from "A cannot be but B" to "A ought to be B."

In other cases they move from is-statements to ought-statements, not by way of a formal deduction of the latter from the former, but by invoking logically irrefutable normative principles. The inference may be fairly direct, as in "One ought to believe what is true," or more indirect, as in "One ought not to act on beliefs, theories, or principles that have been shown to be false," or "You and I are separate beings of the same rational kind, therefore we ought to respect and treat one another equally as separate beings of the same rational kind." Obviously, it would be quite legitimate to query whether some theory or belief is false, or whether we are separate beings of the same rational kind, but it would be illogical to concede the facts and deny their normative consequences. More exactly, it would be illogical to do so if the normative principles on which the inferences are based are irrefutable, indefeasible, and without an equally irrefutable or indefeasible alternative.

The truth is that there is no logical basis for Hume's "revolutionary" claim that the case for justice, property, and contractual obligation cannot be derived from reason, hence must be derived from a murky amalgam of self-interest, public interest, confined generosity, sympathy, and approbation.

The Humean Dismissal of Freedom

Arguments to the effect that the case for freedom, justice, and property derives from reason have been made in all ages. True, they were never beyond criticism, often confusingly intertwined with other arguments, but despite the differences in their details and qualities, they all pointed in the same direction, to the same conclusion. Isn't it a tragic irony that the philosophy of the young Hume is so often invoked to dismiss them out of hand because they did what he had defined to be "altogether inconceivable"? The truth is that there is no logical basis for Hume's "revolutionary" claim that the case for justice, property, and contractual obligation cannot be derived from reason, hence must be derived from a murky amalgam of self-interest, public interest, confined generosity, sympathy, and approbation.

If the gap between *is* and *ought* goes overboard then so goes the idea that science can only be science if it confines itself to Humean empiricism assisted by a purely formal logic of is-statements. That idea, together with the distinction between facts and values, is the basis for the notion that there can only be a science of ethics if ethical statements are reinterpreted as empirical statements—say, about psychological phenomena. Values ("what is desirable") must be reduced to facts ("what is actually desired"); ethical truths must be reduced to subjective opinions—otherwise, or so it is alleged, science would not be "value-free" and then would not be science at all. However, that notion clearly is incoherent.

Yes, science should be value-free in the sense that it should proceed without prejudice from well-established facts to any conclusion it can reach by means of well-tested methods of fact-finding and logical reasoning. However, it should not be value-free if being that means representing values as something other than values or an "ought" as a twisted "is," or if it means disregarding the validity of norms that no one logically can deny merely because they are norms.

Let us turn to Hume's famous dictum that "Reason is, and ought only to be the slave of the passions." It implies that reason's role in guiding actions is, and ought to be, limited to its utility in aiding the fulfillment of desire. On Hume's account, the passions, not reason, insert the "ought" in our thinking: one ought to do what best serves one's passions or desires. Now, on Hume's definitions, that is perhaps the only general

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ought-statement that makes sense. However, it is not an insight into our moral life. It is not a logically irrefutable rule of inference. It is not an observable fact. It makes sense only as a peculiar definition—Hume's definition—of the word "ought." If we mistook it for a normative principle, you could ask me, "Why ought I do what best serves my interests?" In some cases, depending on the circumstances and your particular interests, I might be able to give you a satisfactory answer but in other cases I would not. However, if I were a Humean, I would have to reply that your question shows that you have not understood the meaning of the word "ought." I would have to say that your question simply means, "Why does what best serves my interests best serve my interests?"—or, what is the same, "Why ought I do what I ought to do?"

In fact, the idea that the role of reason in guiding actions is limited to its utility in satisfying desire is not really coherent. Granted that the role of reason is limited, just where are the limits? One might be tempted to say that the passions set the ends and leave it to reason to find means and methods for "best" achieving them. However, the distinction between means and ends is not immediately given. One of the main functions of active reason is to see goals or ends as means in the perspective of an ulterior, maybe even an ultimate end. "What purpose would there be to achieving that particular goal?" is not a meaningless question. However, that is a question only reason can raise. For every passion presents itself as an ultimate end—unless we assume that there is reason in the passions and thereby place ourselves far beyond the pale of Hume's system of definitions.

We might say: Modern decision-theory vindicates Hume. Does not a formal representation of a decision problem, with neat lists of goals, means, and cost-and-benefit valuations of various strategies, leave no other role for reason than to calculate which strategy is "best"? However, it would be a serious mistake to assume that the properties of such a representation match those of the decision problems a person experiences in real life when the goals, means, strategies or their valuations are not "given." Only reason can judge whether such a formal representation is adequate as an aid to solving a real problem. Again, we find that Hume is mistaking his "reason"—an inert formal system—with the reason that gets us through the day.

Reason the Judge

Which will be the judge of what serves our desires best: our passions or our reason? Only reason can make that judgment, in particular, of course, on those frequent occasions when our passions conflict. What is the best way for the slave (reason) to serve conflicting masters? Get out of the way—which here means: go mad? Work out a compromise—as if reason could talk to the passions when they cannot talk to one another? Take sides—which here means: decide which passions will be served and which will be left in the cold? Anyway, what passions are we talking about? If we specify some particular passions, then Hume's dictum is obviously false. If we do not specify the passions then what keeps us from postulating a passion for reason, self-control, science, or whatever?

> It is one thing to claim that utility alone can explain the institutions of justice and property; it is another thing to claim that there is an obligation to submit to the rule of other men, provided only they get away with calling themselves the government.

We see many people do things that are motivated by other passions than a passion for reason. Nevertheless, we can and often do discuss with them the wisdom or reasonableness of giving in to such passions. Few of them even try to cut the discussion short by objecting that it is pointless because reason, being their mere slave, has no command over the passions, and hence no command over us, as regards the question whether to satisfy a particular passion or not. Many, it is true, will exit from such a discussion with the ultimate copout: "You're right, of course, but I cannot help it; I'm so hopelessly weak-willed." Still others will not budge

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until we have answered their question "What's in it for me?" However, there are many other cases where argument, not incentive, intimidation, force, threat, or treatment, makes the difference. The basic presumption of civilized life is indeed that one does not resort to incentives, threats, force, or treatments until one has seriously but in vain tried to reason and to argue.

An interesting consequence of Hume's assault on the rationality of man was pointed out by Hume himself (*Treatise*, Book III, Section 8). The original motive for the establishment of government and the source of its moral approbation are exactly the same as in the case of justice: self-interest and sympathy for the public interest. However, although the obligation to obey the government derives from the same origins as the obligations of justice, it serves an entirely different interest. Thus, apparently, the obligation to obey the government—any government—is separate from and independent of the obligations of justice. "This," Hume continued, "separates the boundaries of our public and private duties, and shews that the latter are more dependant on the former, than the former on the latter."

Surely, it is one thing to claim that utility alone can explain the institutions of justice and property (which reason, reflecting on human nature and the human condition, can indeed show to be universally valid); it is another thing to claim that there is an obligation to submit to the rule of other men, provided only they get away with calling themselves the government. Hume must have sensed that he was on the verge of tumbling into an abyss of absurdity. With bold irreverence he extricated himself from the need for philosophical reasoning by appealing to "the universal consent of mankind," or as he put it, "the sentiments of the rabble." On that authority, and from its utilitarian premise that "the distinction between moral good and evil is founded on the pleasure or pain, which results from the view of any sentiment, or character," Hume concluded that "it is certain, that there is a moral obligation to submit to government, because every one thinks so." On the previous page he had written, "Education and the artifice of politicians concur to bestow a farther morality on loyalty, and to brand all rebellion with a greater degree of guilt and infamy." He might as well have said that there is a moral obligation to submit to the government because the government has succeeded in making people believe that there is such an obligation.

If it were a deep insight into the truth about human nature, Hume's dictum that *reason is and ought to be the slave of the passions* would raise the question, what sort of education could be built on it? At the individual level it translates into: "Your reason is and ought to be the slave of your passions"; do not question your desires, only the efficacy and efficiency of the means to realize them. At the institutional level, it translates into, say, "Schools and universities, the pursuit of scientific knowledge itself, are and ought to be the slaves of politics—or if not of politics then of public opinion." In either case, we seem to be left with no principle of education at all, for what is the purpose of an education if not to teach people to learn to discern right from wrong?

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Why did Hume introduce such concepts as the universal consent of mankind or the sentiments of the rabble in support of his own analysis of human nature? His stated reason is that although he himself was convinced by his exercise in "pure reason," he had doubts about other philosophers. So why not go over their heads and point out that after 600 pages or so of "pure reason," he had arrived at what the rabble had known from time immemorial? Why not, indeed, if the opinion he ascribed to the rabble (without actually consulting it, of course) was exactly the thesis with which he hoped to revolutionize moral philosophy: that, where morality is concerned, things are what people think they are because they think so—a colloquial form of the proposition that the distinction of good and evil lies beyond the ken of reason.

To arrive at that conclusion by "an endeavour to establish my system on pure reason" certainly was a remarkable feat. It set the stage for the welter of pure

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and applied social sciences that thrive on collecting and statistically processing opinions and on exploring ways in which opinions can be formed, influenced, and manipulated. It also denied that there was a basis for serious ethical criticism in the fields of morality, politics, and economics. Why try to find out what is desirable if the desirable is at bottom nothing else than what is desired? And what did the young Hume desire? As he put it in the advertisement for the separately published first two books of his *Treatise*, he was making his work public "in order to try the taste of the public. . . . The approbation of the public I consider as the greatest reward of my labours." A curious advertisement for a philosophical work, indeed, but not for the work for which it was written!

Freedom and justice are not served well by appeals to the universal consent of mankind, alias the sentiments of the rabble. If that wasn't clear in Hume's time, it most certainly became clear in the nineteenth and especially the twentieth centuries.

Justice Ill-Served

Freedom and justice are not served well by appeals to the universal consent of mankind, alias the sentiments of the rabble. If that wasn't clear in Hume's time, it most certainly became clear in the nineteenth and especially the twentieth centuries. Hume himself came to realize that his "vast Undertaking, planned before I was one and twenty & composed before twenty five" was seriously defective. "I have repented my Haste a hundred, & a hundred times." No matter, *A Treatise of Human Nature* was out and eventually became a, perhaps *the*, most important founding stone of modern philosophy. It is in many ways a great book, but it is tragic that it achieved its status chiefly on the basis of, rather than despite, its defects. Its cavalier demotion of reason from the principle that defines the human animal's humanity to an unprincipled technique in the service of anything or anybody that happens to be the effective master, played into the hands of demagogues and manipulators; gave philosophical sanction to the corruption of intellectual life by the rulers of the day; and left education without a compass of its own, at the mercy of the shifting winds of public opinion.

It is one thing to mine Hume's writings for nice quotes on freedom, justice, and property; it is another thing to assume that the philosophy he helped launch is an asset in the struggle for freedom, justice, and property.

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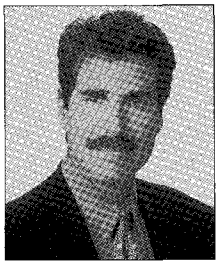
Freedom and Benevolence Go Together



BY JOHN STOSSEL

I interviewed Michael Moore recently for a "20/20" special on health care. It's refreshing to interview a leftist who proudly admits he's a leftist. He told me that government should provide "food care" as well as health care and that big government would work if only the right people were in charge.

Moore added, "I watch your show and I know where you are coming from. . . ."

He knows I defend *limited* government, so he tried to explain why I was wrong. He began in a revealing way:

"I gotta believe that, even though I know you're very much for the individual determining his own destiny, you also have a heart."

Notice his smuggled premise in the words "even though." In Moore's mind, someone who favors individual freedom doesn't care about his fellow human beings. If I have a heart, it's *in spite of* my belief in freedom and autonomy for everyone.

Doesn't it stand to reason that someone who wants everyone to be free of tyranny does so partly because he cares about others? Wishing freedom to one's fellow human beings strikes me as a sign of benevolence. But Moore and the left don't see it that way.

Moore thinks respecting others' freedom means refusing to help the less fortunate. But where's the connection? All it means is that the libertarian refuses to sanction the use of physical force (which is what government is) to help others. Peaceful methods—like voluntary charity—are the only morally consistent methods. I give about a quarter of my income to charities because I've seen that private charity helps the needy far better than government does.

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Moore followed up with a religious lesson. "What the nuns told me is true: We will be judged by how we treat the least among us. And that in order to be accepted into heaven, we're gonna be asked a series of questions. When I was hungry, did you feed me? When I was homeless, did you give me shelter? And when I was sick, did you take care of me?"

I'm not a theologian, but I do know that when people are ordered by the government to be charitable, it's not virtuous; it's compelled. Why would anyone get into heaven because he pays taxes under threat of imprisonment? Moral action is freely chosen action.

If Moore's goal is to help the less fortunate, he should preach voluntary charity instead of government action.

Surprisingly, he did show an understanding of the importance of the libertarian philosophy to America. "John, your way of thinking actually was great for this country. I mean it; it helped to found the country. It helped build us into one of the greatest nations, perhaps the greatest nation, that the earth has ever seen. Limited government, pull yourself up by your bootstraps, every man for himself, forward movement, pioneer spirit.

John Stossel is co-anchor of ABC News' "20/20" and the author of Myth, Lies, and Downright Stupidity: Get Out the Shovel—Why Everything You Know Is Wrong, *recently released in paperback.*
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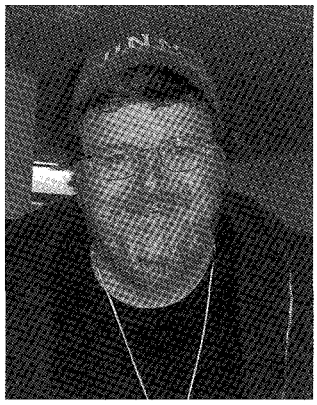
That's why a lot of people in these other countries really admire us, because there's this American get up and go."

I interrupt here to point out another smuggled premise. Did you catch that "every man for himself" line? America was *never* about every man for himself. A free society is about voluntary communities cooperating through the division of labor. Libertarianism is far from "every man for himself."



Michael Moore
Wikimedia

After acknowledging that limited government helped make America great, Moore went on to say, "But I don't think that what you believe is what's going to allow us to survive."

He means that if government does not assure people health care and food, our society will disintegrate.

But why would a philosophy that was good enough to *build* a successful society be unsuited to *sustaining* that society? Individual freedom, with minimal government, made it possible for masses of people to cooperate for mutual advantage. As a result, society could be rich *and* peaceful. As the great economist Ludwig von Mises wrote, "What makes friendly relations between human beings possible is the higher productivity of the division of labor. . . . A preeminent common interest, the preservation and further intensification of social cooperation, becomes paramount and obliterates all essential collisions."

Freedom and benevolence go hand in hand.

Coming in the November *Freeman*

Subprime Monetary Policy
by Gerald P. O'Driscoll, Jr.

Murray Rothbard's Philosophy of Freedom
by David Gordon

The Obstruction of Justice Department
by Roger Donway

Paving the Road to Serfdom
by Becky Akers

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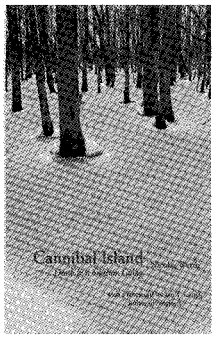
Book Reviews

Cannibal Island: Death in a Siberian Gulag

by Nicolas Werth
Princeton University Press • 2007 • 223 pages • $24.95

Reviewed by Richard M. Ebeling



When a group of formerly pro-Soviet historians published *The Black Book of Communism* in France in 1997, it caused a firestorm of controversy. The authors each focused on a country or a part of the world in which communist governments had come to power in the twentieth century and showed in gruesome but factual detail the political and economic nightmares those experiments in building a "new socialist society" put entire populations through. (The book was published in English in 1999.)

The French political left was furious that the authors—who were denounced as "class traitors"—should play into the hands of capitalist apologists by suggesting that the noble collectivist ideal had led to nothing but tyranny and murder on a vast scale. One prominent French socialist was only willing to concede this much in the face of the evidence presented in *The Black Book*: "Agreed, both Nazis and communists killed. But while Nazis killed from hatred for humanity, the communists killed from love." The end result from the communist episode may have been bad, he was arguing, but at least the communists had good intentions and that made it somehow all right!

The historian who documented the horror of the Soviet Union during the twentieth century in *The Black Book* was Nicolas Werth, the research director at the National Center for Scientific Research in France. He has now detailed one terrible episode under the Soviet regime in 1933 in his recent book, *Cannibal Island: Death in a Siberian Gulag*.

Between 1930 and 1933 Stalin ordered the forced collectivization of the land, during which millions of property-owning peasants known as kulaks were murdered as part of the process of seizing their private farms. About two million of them had been exiled to the frozen wastelands of northern European Russia and Siberia, with almost half dying in the process. (See my review of *The Unknown Gulag* in the September 2007 *Freeman*.)

In 1933 the head of Stalin's secret police, Genrikh Yagoda, proposed to his Master in the Kremlin that in addition to the extermination of rural kulaks, Moscow, Leningrad, and other major cities should be "cleansed" of all remaining class enemies and "social parasites." They, too, would be sent to the new "resettlement camps" in Siberia that were to be organized to harvest lumber and extract minerals for Soviet industrialization.

The "plan" called for exiling up to 300,000 such "enemies of the people" from the major urban areas of the country. The Soviet government had recently instituted a system of internal passports that specified where an individual was permitted to live and work. All those in urban areas without permission to be there would be exiled.

One area selected for those resettlement camps was in western Siberia, north of Novosibirsk and Tomsk along the Ob River in the Narym region. It was an area of swamps and forests unreachable by boat (the only practical means of transportation) during the winter months when the rivers froze and mostly flooded wasteland during the warmer months. Yet that is where tens of thousands were to be sent to "build socialism."

In the first months of 1933 the "cleansing" of the cities began. Every police precinct and unit of the NKVD (the old name for the KGB) had its quotas to assure that it was fulfilling the plan. Train-station searches, random checks of documents on the street, and sweeps through neighborhoods were the most frequently employed ways of rounding up people. Everyone was a target for exile, with no recourse to prove his innocence or mere forgetfulness in having left the documents at home. Women and children passing through Moscow with transit papers all "in order" were nevertheless grabbed and collected at the detention centers. Ordinary workers and even some Party members were accused of having forged papers and were arrested.

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The elderly and crippled were easy targets to meet the quotas. Names and addresses were not listed on any roster and those detained were forbidden to communicate with anyone to prove their right to live or travel somewhere. The body count was all that mattered every week and every month.

The people were crowded into trains with just the clothes on their backs and the food they may have been carrying. During the long journey to Siberia, the strong and the common criminals among the deported preyed on the old, the weak, and the young. Hundreds died in transit, others fell sick, and some were left naked or with barely anything to wear.

When they reached Tomsk they were herded into another crowded detention center, with little food distributed, nothing to warm themselves during the cold nights, and practically no medical facilities or supplies. The Party officials and secret-police officers in charge were only concerned with sending as many of them as possible farther north before the next transports arrived from the cities with thousands more.

In March and April 1933 over 6,300 of these hapless people were dumped on Nazino Island in the middle of the Ob River, hundreds of miles north of Tomsk. The island was mostly swamp and void of anything to eat. The prisoners were given flour, but no other ingredients or cooking utensils to bake bread. Many of them tried to escape by building rafts to get to shore or to float down river in an attempt to escape. Some drowned; others made it ashore but were hunted down by the local police "for sport." They treated the escapees as "game" to be tracked and then shot for the fun of it. Dozens were murdered as the hunters boasted to themselves about the ease or difficulty of "the kill."

Nazino Island was soon nicknamed "Cannibal Island" because the police and the handful of medical personnel who would periodically visit found the remains of several dozen bodies that had been torn apart, the organs eaten. Even the living were used as a food supply. Some women had their breasts cut off, and both men and women had legs severed by their stronger fellow exiles for the meat.

By June, when a commission arrived to investigate what was too shocking for even the Moscow authorities to ignore, they found that two-thirds of the 6,300 people who had been left on the island had "disappeared." They had died of hunger or cold, or been killed and eaten, or hunted down and murdered, or simply vanished in the vast surrounding wastelands.

The commission of inquiry, of course, found scapegoats among the lower-echelon authorities, while other policemen or NKVD officers were merely transferred to new duties or even promoted to positions of higher authority elsewhere in the Gulag. Yagoda, the secret police chief, made his excuses to Stalin but finally fell victim during the Great Purge of 1937, when he was put on trial as an "enemy of the people" and executed when his Master no longer had any use for him.

The approximately 4,000 who "disappeared" on Nazino Island were at most 1 percent of the total who disappeared in 1933 through the process of forced resettlement. One million people were exiled to Siberia that year, and almost 340,000 of them vanished without a trace. For Nicolas Werth, the terrible episode on Cannibal Island captures the very core of the Soviet experience, especially during the Stalinist period. It represented the "decivilization" of human existence and the total destruction of humanity in the name of building utopia.

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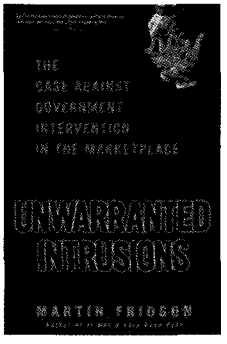
Unwarranted Intrusions: The Case Against Government Intervention in the Marketplace

by Martin Fridson

John Wiley & Sons • 2006 • 309 pages • $24.95

Reviewed by Robert Batemarco



Bernard Baruch once gave the following advice: "[A]pproach each new problem not with a view of finding what you hope will be there, but to get the truth, the realities that must be grappled with. You may not like what you find." While he was surely not the one to whom Baruch, who died in 1965, proffered said advice, Martin Fridson, author of *Unwarranted Intrusions*, seems nonetheless to have taken that

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message to heart. Stripping away the layers of pretexts politicians use to conceal their ulterior motives, Fridson exposes a wide range of government programs as little more than legalized bribery to voters and donation-mongering interest groups.

Most chapters of this book share a common template. They start off with the ostensible purposes of some government program, proceed to show that the problem it purports to solve is either not a problem or one not remedied (and in some cases made worse) by the proposed solution, and then reveal the real (usually hidden) beneficiaries of that program. A final brief section titled "The Bottom Line" neatly summarizes each chapter.

Not one to avoid complexities, Fridson examines alternative ways of quantifying the effects of the policies he scrutinizes while not neglecting necessary qualifications. Nonetheless, he does so in a way that is accessible to those not formally trained in economics. In addition, he places each of these issues in context, with a broad array of background information, which I find to be one of the strengths of the book.

A prime example of his method is found in the chapter on payola. The author traces the practice of payola back through several generations of audio technology to the late nineteenth century, when publishers of sheet music paid artists to perform their songs. Fridson shows that rather than constituting a problem, paying for exposure of music is a time-honored and efficient means of allocating scarce airtime. He follows this with evidence that the crackdown on this practice in the late 1950s was motivated by two desires: first, that of the largest record companies of the time to stifle the competition of small up-and-coming labels and, second, that of nipping in the bud what most adults saw as demonic music—rock and roll. I found this fascinating chapter also noteworthy because it is one of the only times I have seen the late Murray Rothbard, whose 1956 analysis of payola was the chief source for this chapter, criticized for not going far enough.

Other chapters discuss areas with far greater impact on the overall economy than payola. Fridson takes on the misguided and self-serving legislative attacks on outsourcing, insider trading, short-selling, ATM fees, and market-set rents. One theme that pervades his treatment of these topics is that no government attempt to override free markets can be justified without a clear demonstration of market failure. He proceeds to show how much less there is to these supposed market failures than their advocates would have us believe.

In addition to demonstrating how rare an occurrence true market failure is, the author turns his critical faculties to government programs, uncovering the myriad ways in which they are actually designed for failure. His specific targets include Social Security, deposit insurance, and campaign-finance laws. Not content merely to attack, Fridson takes pains at least to outline measures that would work far better than those he criticizes. His analysis relies heavily on Public Choice theory and its fundamental insight that the majority harmed by these policies are not harmed enough to find it worthwhile to do something about it, while the beneficiaries will fight tooth and nail to maintain their ill-gotten gains.

There are, however, several prime targets that the powerful logic of *Unwarranted Intrusions* lets off the hook. For one, it identifies schooling as a pure public good, which as such ought to be provided by government. However, the characteristics of nonexcludability and nonrivalry, *sine qua nons* of public goods, clearly do not describe education. He also shows unwarranted optimism on the ability of economists (including himself) to discern the optimal amount of education independent of market tests, in contrast to his clear-headed discussion of the optimal level of saving in Chapter 2. The book's chapter on the stock market could have been strengthened by taking greater note of government monetary policy's role in generating bubbles and cyclical instability, which are then invoked to justify further interventions. Although Fridson does raise these issues in Chapter 13, he does not draw the requisite connections to the fullest extent possible.

Still in all, this book makes a giant contribution to our understanding of how the political process can never be the solution to the problems of anyone except those who would rather obtain resources through force than through voluntary exchange.

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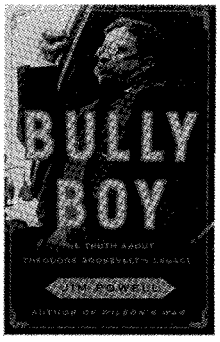
Bully Boy: The Truth About Theodore Roosevelt's Legacy

by Jim Powell

Crown Forum/Three Rivers Press • 2006/2007 • 317 pages • $27.50 hardcover; $15.95 paperback

Reviewed by John V. Denson



Jim Powell's new book on Theodore Roosevelt (hereinafter T.R.) is more of an economic history of the Progressive era than a biography of the former president. With it, he completes a valuable trilogy with his prior books, *Wilson's War* and *FDR's Folly*. In these books, he conclusively refutes many mainstream historical myths, and *Bully Boy* takes all the luster off T.R.'s reputation.

Powell demonstrates how T.R. created governmental monopolies while alleging that he was fighting monopolies created by the free market. His conservation efforts were counterproductive, and he was basically a champion of the "progressive" idea of increasing the power of the federal government while diminishing individual rights and the concept of federalism created by our Founders.

Although Powell doesn't compare T.R. with Mussolini, having read an excellent biography of the Duce (*Mussolini: A Biography* by Denis Mack Smith) shortly before reading Powell's book, I noticed many striking similarities. *Bully Boy* shows that T.R. deserves the label of "America's Mussolini." For example, Powell quotes T.R. as saying, "I don't think that any harm comes from the concentration of power into one man's hands." Both T.R. and Mussolini believed in personal rule via a vast bureaucracy to control the economy and no doubt Mussolini would have agreed with T.R.'s view that "politicians could solve the problems of the world if only they were given enough power."

The close similarities between Mussolini and T.R. aren't limited to their egocentric personalities and authoritarian economic policies, but are most glaring in their praise of war and its "benefits." Smith states that Mussolini "began to refer more frequently to war as one of the few truly ennobling and energizing facts of human experience and to imperialism as the supreme test of a nation's vitality." Smith quotes Mussolini as saying, "War is the most important thing in any man's life" and that "only through military glory could a country become great, only battle makes a man complete. . . ."

That militaristic view closely matches T.R.'s. Powell writes, "Theodore Roosevelt believed war was glorious, even healthy for a nation. He thought that reasons for participating in war should not be limited to national defense. He insisted that the United States should intervene in affairs of other nations and enter into other people's wars to do good." Furthermore, T.R. claimed that war actually made for better men and a better world. He longed for the excitement of combat, and at the beginning of the Spanish-American War he resigned his position as assistant secretary of navy to seek glory on the battlefield. Powell also gives us this chilling T.R. opinion: "No triumph of peace is quite so great as the supreme triumphs of war."

Powell's book discusses the many aggressive measures T.R. took in gaining federal control of the economy in order to eliminate the free market. Powell writes, "Theodore Roosevelt claimed that politicians and bureaucrats could achieve fairness by interfering with the economy." He introduced the slogan "The New Nationalism" by which he meant that the executive power should act as the steward of the public welfare—and of course it was only high-minded politicians like himself who could discern what "the public interest" was. T.R. was absolutely blind to the dangers of turning the power to control the economy over to government officials.

A point that comes out repeatedly in the book is that T.R. disliked the concept of laissez-faire capitalism and liked the concept of state capitalism, where politicians act in concert with favored businesses and industries. T.R. called himself "a Hamiltonian" with regard to the government's supposed need for broad powers to regulate the economy. If you connect the dots, you will see a straight line from Hamilton to Henry Clay to Lincoln to T.R. to Wilson and finally to FDR. All those politicians believed that the federal government should be in control of the economy, but certain businesses should be favored by a partnership with the government through subsidies and other benefits.

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The funny thing about T.R.'s great confidence in his ability to direct the economy is the fact that his own attempt at running a business—a ranch he bought with some of his large inheritance—was a complete failure. Powell observes that "Roosevelt knew little about business, as his disastrous ranching losses made clear, and he certainly never seems to have thought about the function of prices in an economy."

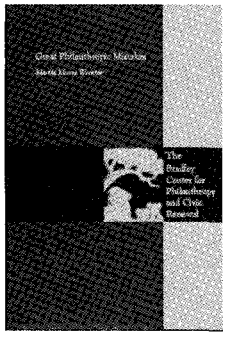
Although many people think that T.R. stood for "rugged individualism," in actuality his authoritarian views were quite hostile to real individualism. In conclusion, Powell depicts T.R. as one of the most energetic presidents, but demonstrates that this trait was disastrous for the peace and prosperity of America.

John Denson (donna.moreman@alacourt.gov) is editor of and contributor to two books, Reassessing the Presidency *and* The Costs of War. *He is also author of* A Century of War.

Great Philanthropic Mistakes

by Martin Morse Wooster
Hudson Institute • 2006 • 157 pages • $14.95 paperback

Reviewed by George C. Leef



The University of Chicago was founded with John D. Rockefeller's money, and numerous public libraries were created through the philanthropy of Andrew Carnegie. People hear about philanthropic success stories and generally assume that charitable foundations are doing wonderful things with the fortunes of the nation's superrich. In fact, there is a common view that the charitable work done with the wealth amassed by business tycoons is a "giving back to society" that at least partially atones for their undoubted transgressions against law and/or morality.

But how often do people think about philanthropic blunders? Who reflects on the possibility that charitable foundations might actually do *harmful* things with the money at their disposal?

There is only one such person who comes to mind: Martin Morse Wooster, author of *Great Philanthropic Mistakes.* Wooster has made quite a study of philanthropy. His earlier book *The Great Philanthropists and the Problem of Donor Intent* examined the tendency for charitable foundations to be taken over by "experts" who overwhelmingly have a leftist outlook and steer the foundation's giving in ways that are often radically at odds with the philosophy of the donor. With his current book Wooster delves into the hubris of those "experts" who usually think there is no limit to the good they can do with vast sums of money. The trouble is that they often do no good at all—and sometimes considerable harm.

Wooster focuses on eight cases where huge foundations made mistakes: the Rockefeller Foundation's attempt to recast American medical education; the Lasker Foundation's war against cancer; the population-control campaign of the Ford and Rockefeller foundations; the Ford Foundation's "Gray Areas" program; the Carnegie Corporation's public-television campaigns; the Ford Foundation's school-decentralization initiative; the MacArthur Fellows program; and the Annenberg Foundation's public-school-reform crusade. After reading about each one, my mind was drawn to Milton Friedman's observation that no one spends other people's money as carefully as he spends his own.

Foundations don't act. The people who run them do. Wooster's eight cases center on foundation decision-makers who had grand visions for changing the world. Arguably, the one who best exemplifies the typical mindset was Ford Foundation president McGeorge Bundy. Bundy, who ran the giant in the 1960s and 1970s, once declared, "I may be wrong but I am never in doubt." It's that lack of doubt that is the root of the problem time after time. Ford's "Gray Areas" program is an excellent example.

The basic idea behind this program was to fund community organizations in impoverished areas, mostly inner cities. Ford Foundation officers assumed that activists in each community would know best what kinds of programs would be most beneficial. Thus Ford created new community organizations that would have great latitude to do whatever their leaders wanted. The result was a set of organizations "so flexible as to be virtually spineless, agencies whose very existence was dependent on their ability to write proposals that

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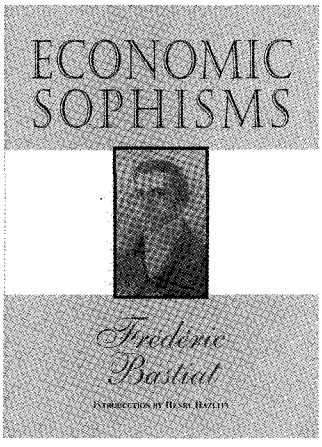
reflected what their sponsors wanted to hear," as Harvard historian Stephan Thernstrom put it.

The "Gray Areas" groups, primed with Ford money, proceeded to "do their own things." One, named Mobilization for Youth, spent its money organizing the poor to advocate for hefty increases in federal welfare programs and fomenting rent strikes in New York City. The community activists that Ford executives so smiled on found innumerable ways to squander money, and it's hard to find any lasting benefits.

Another illustrative failure Wooster highlights is the Annenberg Foundation's gigantic effort at public-school reform in the 1990s. Walter Annenberg made his money in magazines, especially *TV Guide*. His foundation announced in 1993 the "Annenberg Challenge" in which it put up half a billion dollars and asked other philanthropies to toss in some of their money as well. Government schooling was going to get a huge financial boost with the money designated for "reform" efforts. Foundation executives made big splashes around the country hyping their "transformative" programs. All the funding, however, went into the educational status quo, which happily absorbed the money and went about business as usual. In 2002 the Annenberg Foundation published a report loaded with bromides such as, "[P]ublic education in America is better than its image," but conceding that public schools had not significantly improved despite all the money lavished on "reform."

Summing up, Wooster writes, "The grant maker usually finds himself surrounded by mendicants, courtiers, and flatterers. Faced with all this flattery, he naturally becomes more than a little full of himself." Combine that with the common belief among those people drawn to foundation work that they can design and implement programs to make the world better and you have the perfect formula for the dissipation of wealth.

George Leef (georgeleef@aol.com) is book review editor of The Freeman.



Economic Sophisms
By Frédéric Bastiat
Introduction by Henry Hazlitt

Although written 150 years ago, Bastiat's devastatingly accurate attacks on the illogical, self-serving arguments of protectionists remain both relevant and entertaining. Among the gems in *Sophisms* are "The Negative Railroad," "Petition of the Candlemakers," and "The Physiology of Plunder."

Perhaps the best recommendation for *Sophisms* comes from renowned journalist and FEE founding trustee Henry Hazlitt. In his introduction to the book, Hazlitt declares:

We could use more Bastiats today. We have, in fact, desperate need of them. But we do, thank Heaven, have Bastiat himself, . . . and the reader of these pages will not only still find them, as Cobden did, "as amusing as a novel," but astonishingly modern, for the sophisms he answers are still making their appearance, in the same form and almost in the same words, in nearly every issue of today's newspapers.

Published by the Foundation for Economic Education — 328 pages, paperback
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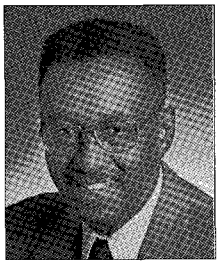
The Intellectual Defense of Liberty



BY WALTER E. WILLIAMS

All too often defenders of free-market capitalism base their defense on the demonstration that free markets allocate resources more efficiently and hence lead to greater wealth than socialism and other forms of statism. While that is true, as Professor Milton Friedman frequently pointed out, economic efficiency and greater wealth should be seen and praised as simply a side benefit of free markets. The intellectual defense should focus on its moral superiority. Even if free markets were not more efficient and not engines for growth, they are morally superior to other forms of human organization because they are rooted in voluntary peaceable relationships rather than force and coercion. They respect the sanctity of the individual.

The preservation of free-market capitalism requires what philosopher David Kelley has called the entrepreneurial outlook on life, which he in part describes as "a sense of self-ownership, a conviction that one's life is one's own, not something for which one must answer to some higher power." If we accept as first principle that each owns himself, what constitutes just and unjust conduct is readily discovered and does not require rocket science. Unjust conduct is simply any conduct that violates an individual's ownership rights in himself when he has not violated those same rights of others. The latter phrase—when he has not violated those same rights of others—allows for fines, imprisonment, and execution when a person has infringed the ownership rights of others.

Therefore, acts such as murder, rape, and theft, whether done privately or collectively, are unjust because they violate private property. There is broad consensus that collective or government-sponsored murder and rape are unjust; however, government-sponsored theft is another matter. Theft, being defined as forcibly taking the rightful property of one for the benefit of another, has wide support in many societies that make the pretense of valuing personal liberty. That theft, euphemistically called income redistribution or transfers, is often defended by lofty phrases such as: assisting the poor, the elderly, distressed business, college students, and other deserving segments of society. But as F. A. Hayek often admonished, "[F]reedom can be preserved only if it is treated as a supreme principle which must not be sacrificed for any particular advantage. . . ." Ultimately, the struggle to achieve and preserve freedom must take place in the habits, hearts, and minds of men. Or, as admonished in the Constitution of the state of North Carolina: "The frequent recurrence to fundamental principles is absolutely necessary to preserve the blessings of liberty." It is moral principles that deliver economic efficiency and wealth, not the other way around. These moral principles or values are determined in the arena of civil society.

It is not broadly appreciated that the greater wealth produced by free markets itself contributes to a more civilized society and civilized relationships. For most of man's existence, he has had to spend most of his time simply eking out a living. In pre-industrial society, and in many places today, the most optimistic scenario for the ordinary citizen was obtaining enough to meet his physical needs for another day. With the rise of capitalism and the concomitant rise in human productivity that yielded seemingly ceaseless economic progress, it was no longer necessary for man to spend his entire day simply providing for minimum physical needs. People were able to satisfy their physical needs with less and less time. This made it possible for them to have the time and other resources to develop spiritually and culturally. In other words, the rise of capitalism enabled the gradual extension of civilization to greater and greater numbers of people. More of them had more time available to read and become educated in the liberal arts and gain more knowledge about the world around them.

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The greater wealth allowed them the opportunity to attend to the arts, afford recreation, contemplate more fulfilling and interesting activities, and engage in other cultural enrichment that was formerly within the purview of only the wealthy.

Before the rise of capitalism a primary means to great wealth was through looting, plundering, and enslaving one's fellow man. With the rise of capitalism it became possible for people to become wealthy by serving their fellow man. Men like Henry Ford and John D. Rockefeller of yesteryear, and men like Bill Gates and Steve Jobs of today, accumulated their great wealth in this way. The huge fortunes amassed by these men pale in comparison to the sum of the benefits gained by the common man.

For individual freedom to be viable, it must be a part of the shared values of a society and there must be an institutional framework to preserve it against encroachments by majoritarian or government will. Constitutions and laws alone cannot guarantee the survival of personal freedom, as is apparent where Western-type constitutions and laws were exported to countries not having a tradition of the values of individual freedom. The values of freedom are enunciated in our Declaration of Independence: "We hold these truths to be self-evident, that all men are created equal, that they are endowed by the Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of happiness." This value statement, serving such an important role in the rebellion against England and later in the establishment of the Constitution of the United States, was the outgrowth of libertarian ideas of thinkers like John Locke, Adam Smith, Wilhelm von Humboldt, William Blackstone, and others.

Societies with a tradition of freedom, such as the United States, have found it an insufficient safeguard against encroachment by the state. Why? Compelling evidence suggests that a general atmosphere of personal freedom does not meet what might be considered its stability conditions. As is often the case, political liberty is used to stifle economic liberty, which in turn reduces political liberty.

For individual freedom to be viable, it must be a part of the shared values of a society and there must be an institutional framework to preserve it against encroachments by majoritarian or government will.

Inadequate Explanations

The benefits of liberty and protected private property rights are often lost in discussions of how our blessings can be extended to the world's poor nations. We often hear suggestions that it is natural resources, right population size, or geographic location that explains human betterment. The United States and Canada are population scarce, have a rich endowment of natural resources, and are wealthy. However, if natural resources and population scarcity were adequate explanations of wealth, one would expect the resource-rich and some of the population-scarce countries on the continents of Africa and South America to be wealthy. Instead, Africa and South America are home to the world's poorest and most miserable people. A far better explanation of wealth has to do with cultural values that support liberty.

If we were to rank countries according to: (1) whether they are more or less free-market, (2) per capita income, and (3) ranking in Amnesty International's human-rights protection index, we would find that those with a larger free-market sector tend also to be those with the higher per capita income and greater human-rights protections. People in countries with larger amounts of economic freedom, such as the United States, Canada, Australia, Hong Kong, Japan, and Taiwan, are far richer and have greater human-rights protections than people in countries with limited markets, such as Russia, Albania, China, and most countries in Africa and South America. That should tell you something.

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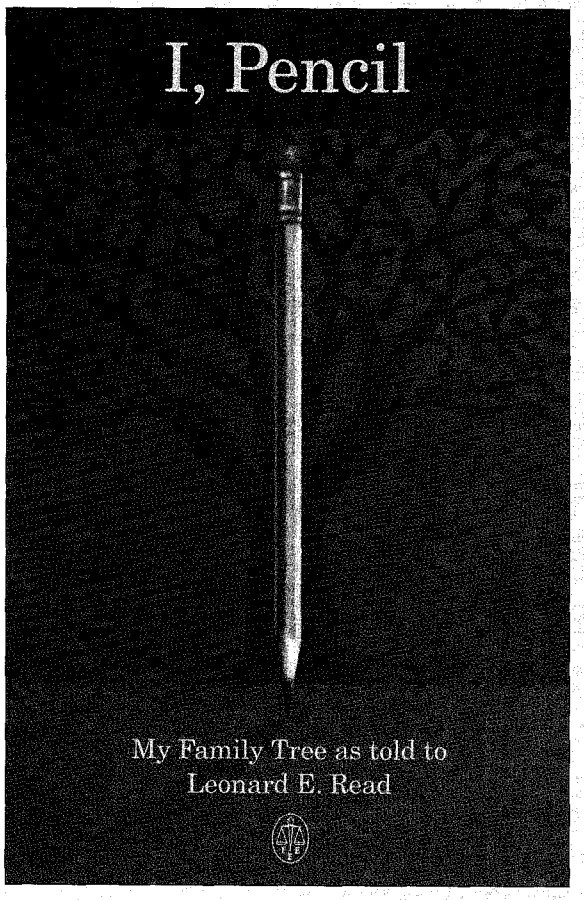

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"Only if we understand why and how certain kinds of economic controls tend to paralyze the driving forces of a free society, and which kinds of measures are particularly dangerous in this respect, can we hope that social experimentation will not lead us into situations none of us want."

—F.A. Hayek (1899–1992),
The Road to Serfdom

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